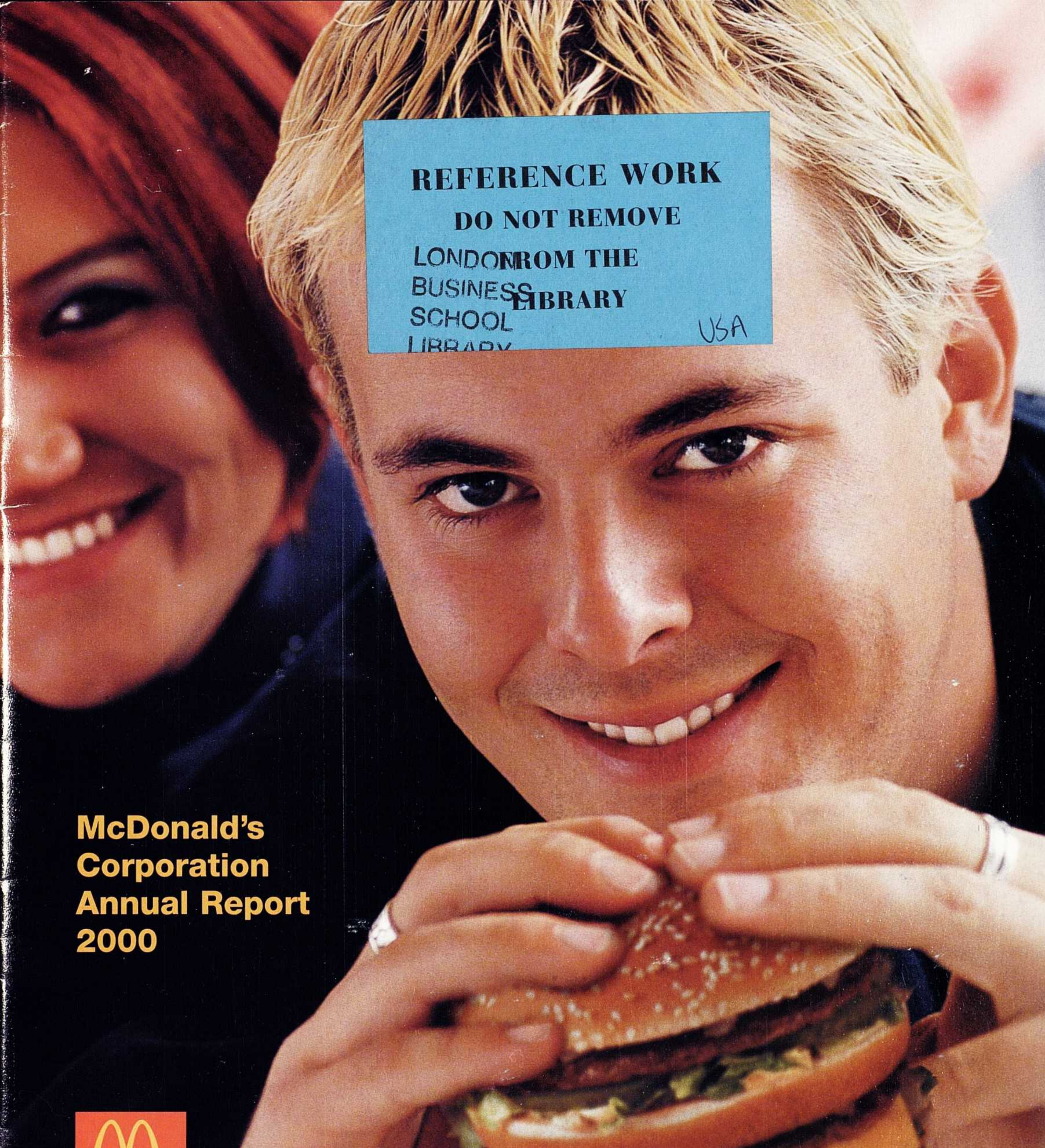


McDonald's Corporation Annual Report 2000

McDonald's

Contents

Flip the bottom corners of the pages on the right to watch someone enjoying a McDonald's meal!

When was your first visit to McDonald's? > on Saturday morning—just you and your dad sharing some one-on-one time together? > on a date with your first love? > when your grandchild treated because, after all, you aren't really so square? > when your teacher worked the front counter during a school fundraiser? > for the grand opening of the first McDonald's in your town or country? > on a summer outing with your entire family? > for some stolen moments to catch up with an old friend? > at a birthday party for your best friend? > to celebrate your team's victory—or to cheer you up after a defeat? > to apply for your first job? > for lunch with the gang at work? > for a pick-me-up after taking your college entrance exams? > to celebrate your child's performance in a school play? > **Whatever the reason for your first visit, we want the smiles we deliver and the special memories you experience at McDonald's to keep you coming back again and again.**

Dear shareholders,

...constant currency net income per common share increased 10 percent on Systemwide sales that surpassed the $40 billion mark for the first time in our history.

I'll begin this annual letter by thanking you, our shareholders, for investing in McDonald's. Your faith in our future and your confidence in our brand are deeply appreciated. We are committed to making each and every one of you look exceedingly wise from an investment point of view as we pursue our vision to be the world's best quick-service restaurant experience. We want you to own shares of McDonald's over the long term, and we know the only way this will happen is through the long-term growth of our business in ways that not only meet your expectations — but exceed them.

I'd like to outline what, I believe, are your expectations...

First, and obviously, you expect strong financial results. Next, you look for leadership, the kind that keeps a business fresh and at the cutting edge. Finally, you increasingly expect the companies in which you invest to connect with your values and to demonstrate social responsibility.

Over the years, McDonald's track record has stood up well against each of these broad expectations.

In the area of financial performance, McDonald's has consistently delivered record annual earnings* in our 35 years as a public company.

On the leadership front, we have a heritage of creating and executing strategies that leave the competition trailing well behind. Our System's leadership — owner/operators, suppliers and Company employees — has created a remarkable history of innovation in menu, brand building, technology, operations and restaurant development.

In the area of social responsibility, McDonald's commitment to giving back to communities is as old as the brand itself. Clearly, it is the right thing to do. Nevertheless, we are pleased with the ongoing recognition we receive for our efforts and are proud of the trust we build with customers and their communities. In fact, I believe that by doing the right thing, we enhance the loyalty and affection customers have toward our brand.

Looking back over 2000, how did McDonald's perform against this set of expectations?

Financially, our global food service business performed well despite challenges. In Europe, there were the well-reported currency issues throughout the year and later in the year there were consumer concerns related to BSE — or mad cow disease — in the beef supply in certain European markets. And Asia and Latin America faced continuing economic downturns.

Nevertheless, constant currency net income per common share increased 10 percent on Systemwide sales that surpassed the $40 billion mark for the first time in our history. We added 1,606 McDonald's restaurants, and with the successful completion of our Boston Market acquisition, we added 792 restaurants under our Other Brands. At year-end 2000, we operated 28,707 restaurants in 120 countries. In all, we served nearly 1 billion additional customers, for a total of 16.5 billion customer visits.

**Excluding 1998 Made For You costs and the 1998 special charge.*

The 120 countries in which we operate represent 95 percent of the world's purchasing power. Yet, we feed less than 1 percent of the world's population on any given day.

In the United States, where competition is intense, the percent increase in operating income was in the high-single digits on a 3 percent sales increase. Notably, the U.S. business has posted positive comparable sales in 11 of the past 12 quarters, an excellent indication of our momentum. And in Europe, Asia/Pacific and Latin America, sales in 2000 increased 9 percent in constant currencies. As mentioned earlier, there have been consumer concerns about the beef supply in certain European markets. However, because of our product specifications and the trust customers have in McDonald's, this issue has affected our sales much less than those of others. And as shareholders, you also can trust that McDonald's is committed to adhering to the highest safety standards in the world and always meets or exceeds government standards.

Given the tough business environment, our gains were modest. Nevertheless, we were able to extend our lead in virtually every market in which we do business, as it was even tougher for many of our competitors.

McDonald's total return to investors over the past 10 years was 17.5 percent. But the reality is our stock did not perform well in 2000. Although our overall financial performance was good, it was not as good as we expected, and this was reflected in our stock price.

Looking ahead, our financial goals are to continue growing earnings per share, to increase return on investment and to grow shareholder value at a rate that our investors expect and deserve.

Turning to another investor expectation—leadership—I am very pleased with the progress our team made last year in adapting to local market conditions and in innovating to move the business forward. Perhaps more importantly, we intend to build on that progress.

We will continue to tap into the tremendous opportunities that exist for McDonald's. The 120 countries in which we operate represent 95 percent of the world's purchasing power. Yet, we feed less than 1 percent of the world's population on any given day. In 2001, we plan to add 1,500 to 1,600 McDonald's restaurants and are focused on increasing sales at existing restaurants.

In the U.S., we already are seeing the benefits of our investment in the Made For You food preparation system with improvement in customer ratings of the taste and freshness attributes of our food. In addition, Made For You has provided the platform for new product additions, including the introduction of our New Tastes Menu this past January. This menu has the potential to create a permanent branded category, similar to our Extra Value Meal approach. We also are developing aggressive plans to double our sales in the U.S. over the next 10 years, and triple owner/operator cash flow—primarily through our existing restaurants.

In Europe, we are increasing menu variety with pork and chicken selections, building our breakfast business and offering customers great value. Also, as much of the European community unites in one currency, we will leverage the McDonald's System to cut costs and achieve additional synergies.

In Asia/Pacific, we will continue to focus on our traditional menu and add products that reflect the popularity of chicken. We will also explore other ways to best meet local preferences.

And, despite the current economic challenges, we see Latin America as a great market for our business long term given its large population, strong family emphasis and young demographics. So, we will continue to emphasize value, building our brand and growing market share. By developing a loyal customer base, we will be poised for growth as the economies begin to improve.

We will continue to support our ongoing global growth with innovation and technology. Our future includes a Web-enabled system of restaurants and cashless electronic transactions.

In addition to growing the McDonald's restaurant business, management is developing new avenues for future profitable growth, primarily through our Other Brands.

We know that there are a number of distinct meal occasions that McDonald's does not meet—when you want pizza or ethnic food, for

example, we're not on your list of options. So, we are developing new concepts to leverage our expertise in building best-in-class brands and to capture additional meal occasions around the world. These brands include Boston Market, Chipotle Mexican Grill and Donatos Pizza in the U.S.; and United Kingdom-based Aroma Café and Pret A Manger.

We are also leveraging our food service experience by participating in the development of global Internet-related services. Last year, we formed eMac Digital in partnership with Accel-KKR, which is developing on-line technologies to benefit both the McDonald's System and the food service industry.

So, we continue to focus on growing our powerful McDonald's brand, growing our promising new brands and leveraging our strengths.

Now, let's look at what I believe is the third investor expectation—being a socially responsible organization. We work with a passion to make the world a better place—whether it is offering disaster relief after the recent earthquakes in El Salvador and India, or celebrating the opening of the 206th Ronald McDonald House in Mexico City, or our continuing environmental and animal welfare leadership. We are a neighbor that people know they can count on in times of need.

We also have the incredibly rewarding opportunity to go beyond the expected with our global partners, especially on behalf of children. In 2000, for instance, we joined with The Walt Disney Company in sponsoring Millennium Dreamers—celebrating the achievements of 2,000 outstanding young people from around the world. We leveraged our sponsorship of the Olympic Games to bring young leaders together in an International Youth Camp program during the Summer Games in Sydney. And we partnered with the Field Museum in Chicago to support the reconstruction of "Sue," the largest *T. rex* fossil ever found, and to bring Sue's story to people through traveling exhibits.

So, we continued to take strides toward our vision to be the best through our financial performance, leadership and social responsibility efforts.

As we look forward to continued progress in 2001, we know there is one key to our success—our family of more than 1.5 million employees, owner/operators and suppliers around the world. They bring the McDonald's brand to life for our customers every day, and we count on them to make our customers smile—every customer, on every visit.

I am always impressed—and often amazed—at the incredible levels of dedication and passion our people have for the business and their communities. I believe these attributes are uniquely McDonald's. I also am proud of the vast experience and variety of backgrounds that many of our people bring to The Golden Arches. For example, on a recent trip I met a restaurant manager in China, who studied medicine but decided to pursue a career with McDonald's. On the same trip, I also met with our two joint-venture partners in Korea, who were both successful entrepreneurs prior to partnering with McDonald's.

In today's society, any successful business needs to recruit and retain good people. I believe that, in many countries, we have a competitive strength in this area. In fact, when I visited Brazil recently, I was proud to learn that McDonald's received recognition as one of the top places to work in the country. And we have dedicated our efforts to being the best employer in each community around the world. We know that is the surest way to guarantee our success as a System, and your success as an investor.

Finally, I want to thank you again for being part of McDonald's. I appreciate your confidence and look forward to enjoying success with you in the future.

Sincerely,

Jack M. Greenberg

Chairman and Chief Executive Officer, Shareholder

March 8, 2001

I am always impressed—and often amazed—at the incredible levels of dedication and passion our people have for the business and their communities. I believe these attributes are uniquely McDonald's.

Performance 2000

Systemwide sales exceeded **$40 billion** for the first time in our history.

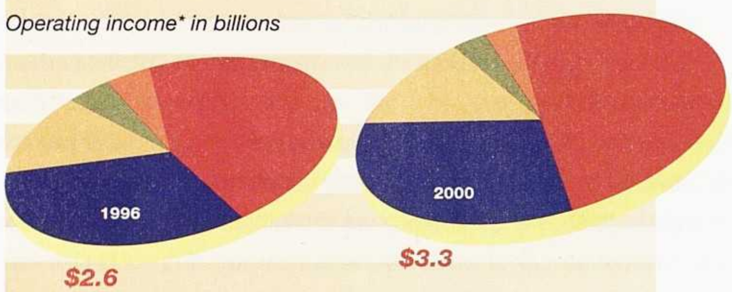
McDonald's served nearly **1 billion more** customers than in 1999.

Earnings per share increased **10 percent** in constant currencies.

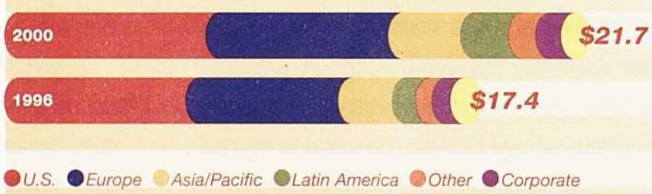
We repurchased **$2 billion** of McDonald's stock during 2000, bringing total repurchases under our three-year program to **$3.3 billion**.

Systemwide sales in billions

Operating income in billions*



Total assets in billions



Cumulative share repurchases in billions

*Net income per common share—diluted** in dollars*

Compound annual growth rates for the 10-year period ended December 31, 2000

Systemwide sales	7.9%
Total revenues	7.9
Operating income	7.6
Net income	9.4
Net income per common share–diluted	10.5
Cash provided by operations	7.8
Total assets	7.4
Total shareholders' equity	8.2
Total return to investors on common stock	17.5

*Graph excludes corporate segment.
**Excluding 1998 Made For You costs and 1998 special charge.

More than **1,600** McDonald's restaurants and nearly **800** restaurants operating under Other Brands were added.

We introduced The Golden Arches to **American Samoa** and **French Guiana**, bringing the total number of countries in which we operate to 120.

McDonald's ranked **#1 in social responsibility** in *Fortune* magazine's 2000 listing of America's Most Admired Companies.

11-year summary

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
Systemwide sales	$40,181	38,491	35,979	33,638	31,812	29,914	25,987	23,587	21,885	19,928	18,759
Systemwide sales by type											
Operated by franchisees	$24,463	23,830	22,330	20,863	19,969	19,123	17,146	15,756	14,474	12,959	12,017
Operated by the Company	$10,467	9,512	8,895	8,136	7,571	6,863	5,793	5,157	5,103	4,908	5,019
Operated by affiliates	$ 5,251	5,149	4,754	4,639	4,272	3,928	3,048	2,674	2,308	2,061	1,723
Total revenues	$14,243	13,259	12,421	11,409	10,687	9,795	8,321	7,408	7,133	6,695	6,640
Operating income	$ 3,330	3,320	2,762 (1)	2,808	2,633	2,601	2,241	1,984	1,862	1,679	1,596
Income before provision for income taxes	$ 2,882	2,884	2,307 (1)	2,407	2,251	2,169	1,887	1,676	1,448	1,299	1,246
Net income	$ 1,977	1,948	1,550 (1)	1,642	1,573	1,427	1,224	1,083	959	860	802
Cash provided by operations	$ 2,751	3,009	2,766	2,442	2,461	2,296	1,926	1,680	1,426	1,423	1,301
Capital expenditures	$ 1,945	1,868	1,879	2,111	2,375	2,064	1,539	1,317	1,087	1,129	1,571
Free cash flow	$ 806	1,141	887	331	86	232	387	363	339	294	(270)
Treasury stock purchases	$ 2,002	933	1,162	765	605	321	500	628	92	117	157
Financial position at year end											
Net property and equipment	$17,048	16,324	16,042	14,961	14,352	12,811	11,328	10,081	9,597	9,559	9,047
Total assets	$21,684	20,983	19,784	18,242	17,386	15,415	13,592	12,035	11,681	11,349	10,668
Total debt	$ 8,474	7,252	7,043	6,463	5,523	4,836	4,351	3,713	3,857	4,615	4,792
Total shareholders' equity	$ 9,204	9,639	9,465	8,852	8,718	7,861	6,885	6,274	5,892	4,835	4,182
Per common share											
Net income	$ 1.49	1.44	1.14 (1)	1.17	1.11	.99	.84	.73	.65	.59	.55
Net income—diluted	$ 1.46	1.39	1.10 (1)	1.15	1.08	.97	.82	.71	.63	.57	.54
Dividends declared	$ .22	.20	.18	.16	.15	.13	.12	.11	.10	.09	.09
Market price at year end	$ 34.00	40.31	38.41	23.88	22.69	22.56	14.63	14.25	12.19	9.50	7.25
Systemwide restaurants at year end (2)	28,707	26,309	24,513	22,928	20,884	18,299	15,899	14,127	13,093	12,418	11,803
Systemwide restaurants by type (2)											
Operated by franchisees	16,795	15,949	15,086	14,197	13,374	12,186	10,944	9,918	9,237	8,735	8,131
Operated by the Company	7,652	6,059	5,433	4,887	4,294	3,783	3,216	2,733	2,551	2,547	2,643
Operated by affiliates	4,260	4,301	3,994	3,844	3,216	2,330	1,739	1,476	1,305	1,136	1,029
Number of countries at year end	120	118	114	109	101	89	79	70	65	59	53
Number of shareholders at year end IN THOUSANDS	953.1	899.5	888.2	880.2	904.6	769.7	609.2	464.5	398.3	371.7	362.6
Common shares outstanding at year end IN MILLIONS	1,304.9	1,350.8	1,356.2	1,371.4	1,389.2	1,399.5	1,387.4	1,414.7	1,454.1	1,434.5	1,436.4

(1) Includes $162 million of Made For You costs and the $160 million special charge related to the home office productivity initiative for a pretax total of $322 million ($219 million after tax or $0.16 per share).

(2) Systemwide restaurants have been adjusted to exclude dessert-only kiosks for all years presented.

McDonald's vision is

being the world's best quick-service restaurant experience

this means

being the restaurant experience

that makes each and every customer smile

on each and every visit

focus > result

> **becoming** the best employer for our people in every market around the world, as only satisfied employees can deliver the friendly, efficient service customers want and deserve

> **delivering** exceptional customer experiences, through a combination of great-tasting food, outstanding service, exciting promotions, inviting restaurants and reliable value

> **expanding** our powerful brand by using innovation and technology to enhance customer experiences for years to come

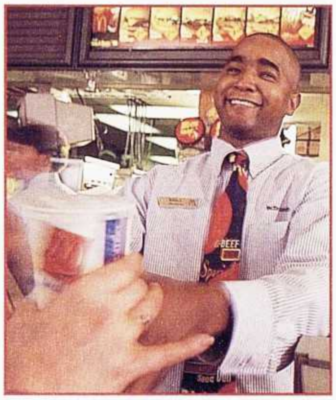
> **leveraging** the System's strengths by developing new business concepts

> **solidifying** our leadership in social responsibility by giving back to our communities and making the world a better place for future generations

enduring profitable growth


a smile
Hash Browns

is our victory sign



Our restaurant staffs around the world are the face of McDonald's to our customers, and we are striving to put smiles on the faces of the people on both sides of the counter.

Everything we do at McDonald's—from sourcing products around the globe to site development to grilling hamburger patties—comes together the moment an individual steps up to the front counter or pulls up to the drive-thru window.

Satisfied customers—every restaurant, every meal, every time—are our goal and our reward. Their smiles will be tangible proof that we have fulfilled our vision to be the best quick-service restaurant experience in the world.

Members of the McDonald's System are pursuing our vision with an unrelenting passion. They are finding new and different ways to create brand-loyal customers. Clearly, the power of our decentralized approach to managing the business is that our local management teams and owner/operators can readily tailor their markets' tactics to optimize opportunities.

The story that follows takes a look at a sampling of the many things we are doing to give customers what they want and at some of those little extras we are delivering to further differentiate McDonald's from the competition.

Smiles are universal

With operations in 120 countries, it's not surprising that customers have diverse customs, languages and taste preferences. Yet, everyone understands a smile—an expression of welcome, friendliness and satisfaction.

When our restaurant crews are smiling, we know we have succeeded in giving them the training, resources and opportunities they need to feel good about themselves and their jobs. When our customers reward us with a smile, we have succeeded in delivering hot, tasty food coupled with fast, friendly service.

Accordingly, the McDonald's System is committed to measuring and enhancing the satisfaction we deliver. In Singapore, for example, we use a "Smile Index," a barometer that measures employee and customer satisfaction based on restaurant-specific surveys. This tool is used to foster teamwork among crewpeople, recognize their accomplishments and assist the restaurant staff in setting action plans.

We also use research to learn about consumers and their impressions of McDonald's. One finding was that since the implementation of our Made For You food preparation system in the U.S., perception scores for McDonald's food taste, freshness and appearance have been increasing there.

Smiles are contagious

A warm, friendly acknowledgement usually evokes a similar response. Similarly, when we are happy, it is not unusual for our positive attitude to be reflected in our interactions with others. When our crews are happy, they can't help but give friendly, efficient service to customers. That's why being the best employer is a key strategy at McDonald's. Quite simply, our goal is to continu-

CONTINUED ON PAGE 12

Customers today have many choices, and we are working hard to be their first choice every time they visit a quick-service restaurant.

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ally demonstrate that we value our employees, their contributions and their growth. It starts with treating them with respect, recognizing their contributions and providing them with meaningful development opportunities and the resources to do their jobs.

Showcasing excellence through friendly competition is one way we instill a sense of enthusiasm and fun among our crews, while honing their skills. Crew competitions within and among McDonald's restaurants are held in many markets, including Japan, Saudi Arabia, Uruguay and the U.S. In fact, the best of our best were rewarded with the opportunity to serve up Big Mac sandwiches and fries at the 2000 Olympic Games in Sydney, Australia. Among the 20 countries represented on our "gold medal" crew team were Belarus, Chile, Denmark, Greece, Indonesia, Russia and Venezuela.

Since excellence at the restaurant begins with the manager, we are recognizing the top 1 percent of our U.S. restaurant managers with the recently created Ray Kroc Award, a recognition named in honor of McDonald's founder. We brought these very special managers together to celebrate their successes, share best practices and identify opportunities for improvement. In addition, they helped us to better identify the leadership skills that drive excellence in our restaurants on a day-to-day basis.

Serving up smiles

Customers today have many choices. They are more discerning and are demanding more from McDonald's. So, we are determined to capture more eating occasions by serving the great food they want and providing the fast, friendly service they deserve.

We are expanding proven McDonald's products into new markets and adding new tastes to the menu. Now, for example, Guatemala, Malaysia, the Netherlands, Poland, Taiwan and the U.K. are among the many countries where customers are enjoying refreshing McFlurry desserts. And we are testing breakfast menus in several countries, including Sweden and Switzerland.

Also, recognizing that spicier offerings would appeal to local customer tastes and make cash registers ring, a team of owner/operators and employees from Southern California went to Mexico to benchmark our product offerings there. Using those learnings, they worked with our menu management team to develop authentic Mexican products with local appeal, such as breakfast burritos, chicken and beef torta sandwiches and several Mexican desserts.

We also are giving customers more reasons to visit our restaurants with our New Tastes Menu in the U.S. This initiative is designed to provide an ongoing rotation of food news and to firmly establish McDonald's as the place for variety and value. Driven by consumer research and enabled by the Made For You food preparation system, McDonald's New Tastes Menu is a vehicle by which markets across the U.S. can select and showcase limited-time breakfast, lunch/dinner and dessert offerings that have local appeal.

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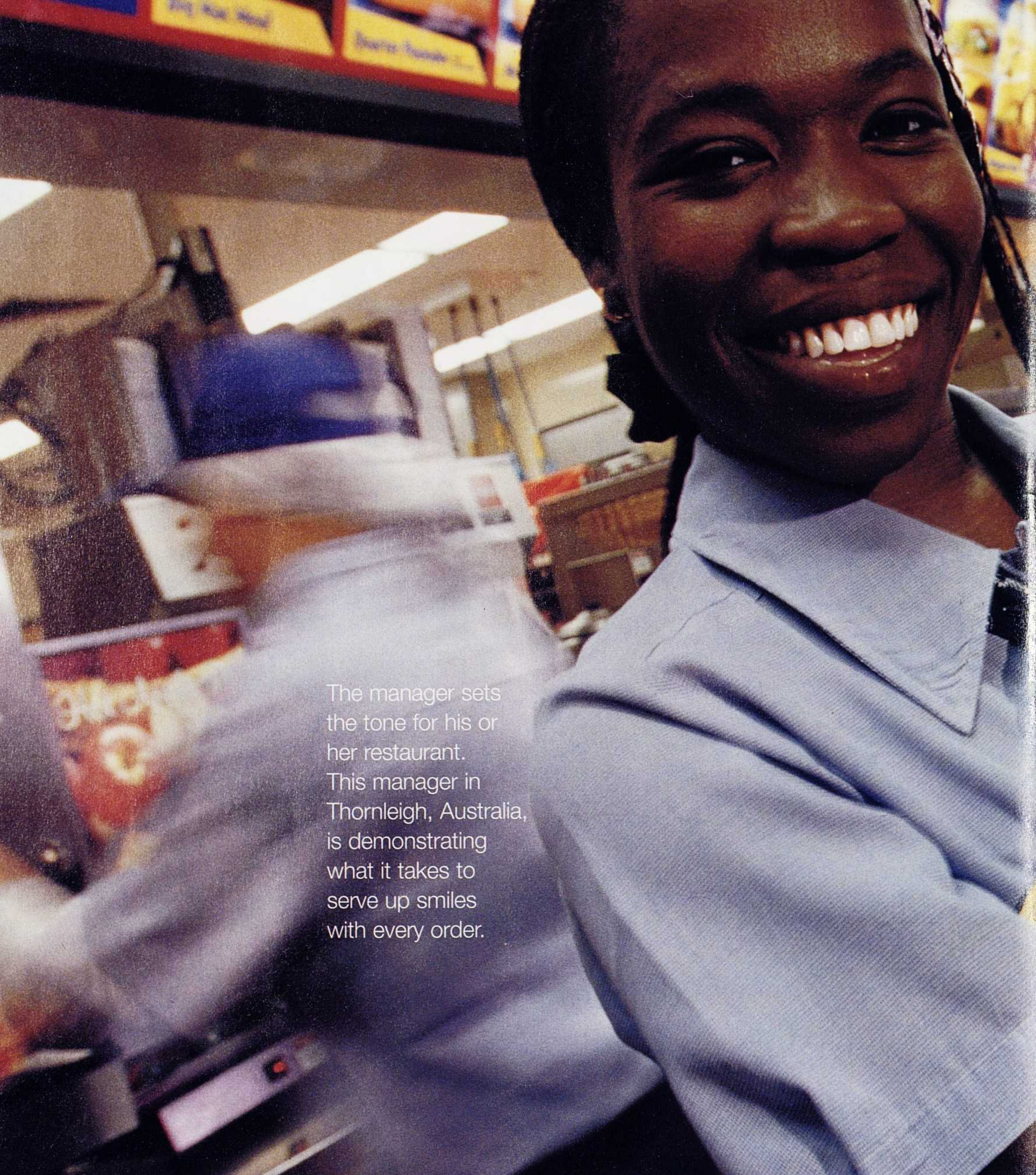
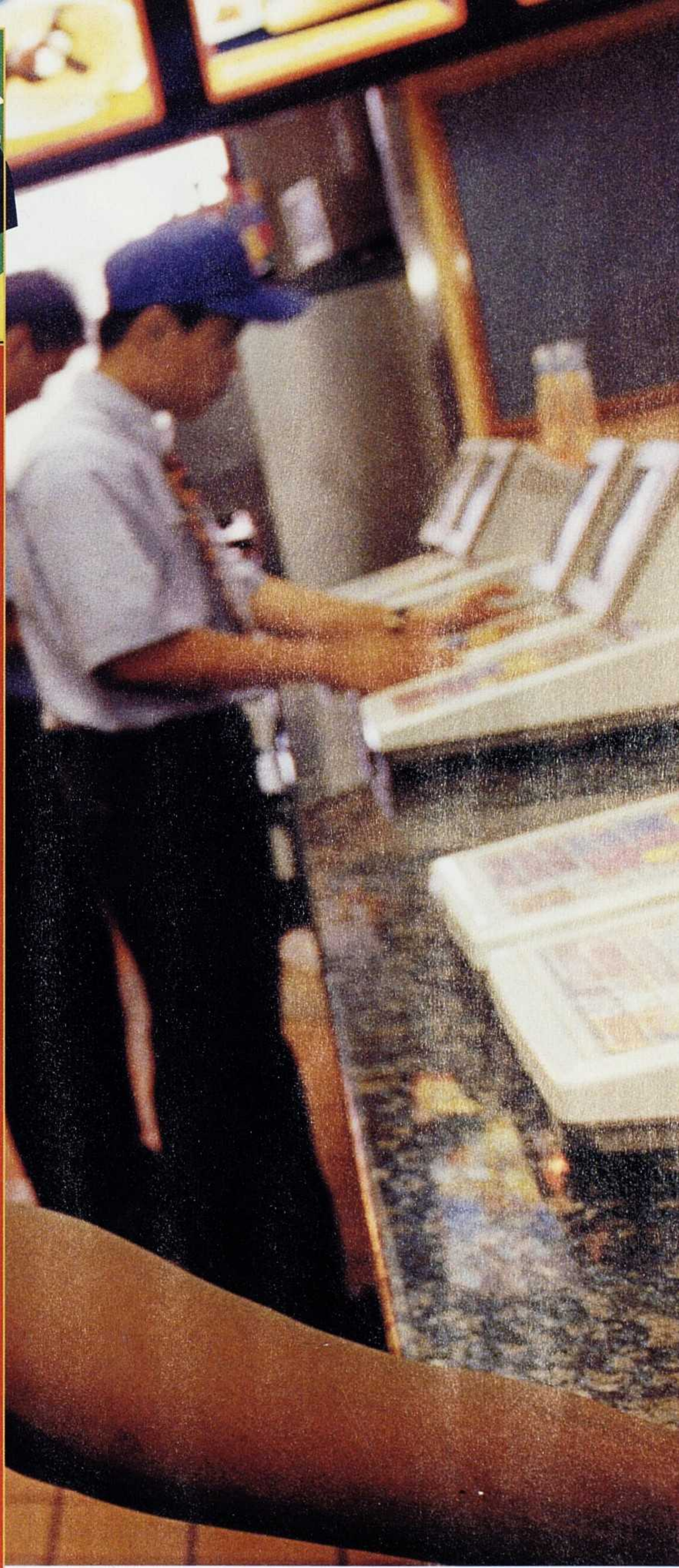
foods you crave



The manager sets the tone for his or her restaurant. This manager in Thornleigh, Australia, is demonstrating what it takes to serve up smiles with every order.



Working magic for customers

The leadership of our restaurant managers has a significant impact on customers' experiences. Consider Ahmad Afshari, the manager of the Tyson's Corner, Virginia, McDonald's. His restaurant, which generates $3 million in sales annually, rates an impressive 98 percent in customer satisfaction.

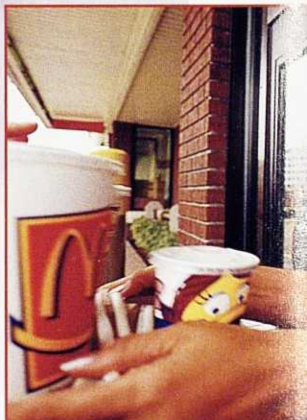
That kind of rating doesn't happen by accident. Ahmad's leadership and operational skills have enabled him to motivate his employees and beat aggressive sales targets.

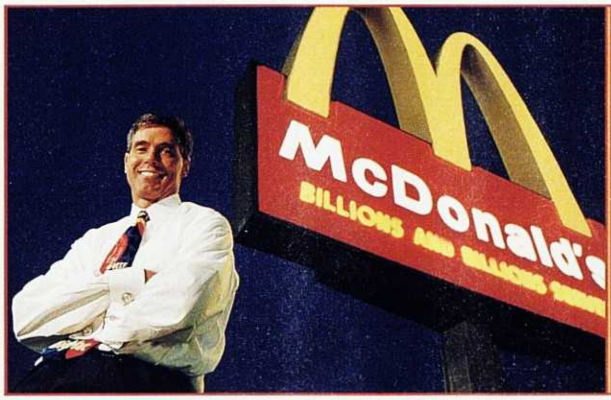
A winner of the Ray Kroc Award for outstanding performance, Ahmad receives high marks for his ability to train, reward and develop his staff. Employee satisfaction scores at his restaurant are among the highest in the U.S., and crew turnover is among the lowest. Not surprisingly, his crew's positive attitude drives exceptional service.

Ahmad also is a drive-thru expert. During busy periods, his crew dons mobile wireless headsets and works the drive-thru lane, taking orders from customers. To further speed up service, he dedicates an individual to filling orders, so order takers and cashiers can focus on their jobs. His uncanny ability to make cars "disappear" in the drive-thru has earned him the nickname of "Drive-Thru Magician." Magician or not, he surely has a knack for delighting customers!

Ahmad recently was promoted to operations consultant.

sterling service





The little things often make a good experience great, and we are providing many of those little things to make a visit to McDonald's special.

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We also use limited-time offerings, such as the popular Cheese Lovers week in France, to add excitement and profits outside the U.S. During this successful promotion, customers can select sandwiches featuring a variety of cheese toppings that please their palates.

Clearly, appealing to local food tastes is good for business. Notably, we generated impressive double-digit comparable sales increases in China last year with an ongoing focus on value and two innovative chicken products—Spicy McWings and the Spicy Chicken Filet Burger. Building on this opportunity, we are in the process of establishing a center of excellence for menu management and product development in Singapore. Grounded in a consumer-guided development process, this center will focus on identifying and creating products that appeal to customers in Asia in order to build sales and increase profitability throughout the region.

We are also intensifying our efforts to deliver fast, friendly, hassle-free service.

In Indonesia, for example, our restaurant crews are donning Formula 1 racing-inspired uniforms to beat a 60-second timer to serve customers—faster and better—at the front counter, as well as in the drive-thru.

In Argentina, Paraguay, Spain, Switzerland and a number of other markets, hosts and hostesses are greeting customers and seeing to their special needs, whether it's more catsup or a high chair for a youngster.

As customers who use the drive-thru tend to be especially pressed for time, we are continuing to explore opportunities to facilitate car throughput. For example, crewpeople in Brazil are testing remote order-taking devices during busy periods to place orders for customers using the drive-thru.

In addition, we are testing side-by-side tandem ordering stations at U.S. restaurants with especially high drive-thru sales. These dual stations allow customers to pull up to the first available position, so cars keep moving even if someone is ordering for an entire soccer team at the other order point. Initial results have been positive, with greater car throughput and incremental sales during peak periods.

The 'value' of a smile

Everyone appreciates a good value, and at McDonald's, we pride ourselves on being a value leader around the world. A long-term strategy has been to combine attractive prices with delicious food and enjoyable experiences. As a result, we have a broad base of customers, many of whom can afford to visit us frequently.

In addition to being a good value all the time, we are building traffic and sales during less busy periods with innovative approaches to pricing. For example, in Japan, where a large percentage of our business is conducted on weekends, we are providing special weekday values, such as 120-yen Filet-O-Fish sandwiches. And in a number of markets across the U.S., we are offering outrageous values, like 29-cent hamburgers and 39-cent cheeseburgers, on certain days of the week.

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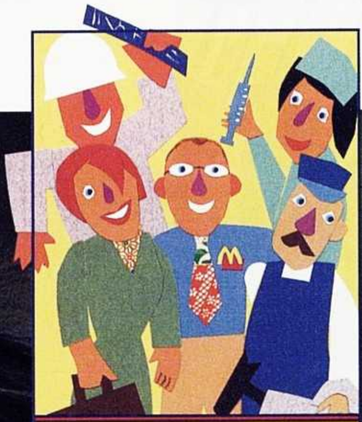
Children just seem to know we care. After all, where else can kids enjoy Ronald's PlayPlace *and* a Happy Meal?



Doing what comes naturally

For Martin Hoban, a McDonald's owner/operator with two restaurants in County Kerry, Ireland, good deeds come naturally.

Active in his community, Martin often reaches out to local businesspeople—who are also his customers—to help others.

"I know my customers. If the community needs help, I ask them to pitch in," explains Martin.

Through that kind of initiative, Martin spearheaded an effort to remodel a play area at a local hospital. He recruited local merchants to donate hardware and lumber and asked an architect and an electrician to volunteer their time and skills. They were happy to help out, and in the end, they thanked him for getting them involved!

His willingness to always lend a hand has helped him forge special bonds with the people in his close-knit community. As a result, they frequent his restaurant and provide candid customer feedback. "It's incredible," he remarks, "since they know me so well, they are quick to let me know what's right and what can be improved in my restaurants."

"The bottom line is, I'm helping my business," Martin says. "But more importantly, it makes me smile."

community care

there is nothing

CONTINUED FROM PAGE 17

Creating smiles through innovation

Since 1955, when we essentially redefined the preparation and delivery of a meal, McDonald's has grown the business through innovation. Now, we are tapping into technology to enhance our customers' experiences by making McDonald's more fun, to help them stay connected, to improve service and convenience, and to expand the Brand.

New technology creates new opportunities, and we are tapping into technology to enhance our customers' experiences.

For instance, McMagination and Kidzpace, recreation areas that feature electronic games for teenagers as well as younger children, are now options available to our U.S. restaurants. We also are offering customers limited-time Internet access at a number of our restaurants in Latin America.

Another use of technology is geared towards eliminating routine tasks, so our restaurant staffs can spend more time on service. For example, by expanding the use of inventory management systems to electronically monitor product usage and place orders, we are eliminating time-consuming reporting and reordering tasks, while ensuring optimal supply levels at all times. We also are expanding the use of automated beverage dispensers, which pour drinks while sales are entered into the cash register.

We also are employing technology to enhance the convenience of a visit to McDonald's. One way we are doing this is through an interactive website—www.mcdonalds.com—where customers and job seekers can get directions to the closest McDonald's restaurant from any address in the U.S. and the U.K.

In addition, we are exploring alternative payment methods to speed service and build higher average checks, while making visits to McDonald's more convenient. At a number of our U.S. restaurants, customers can pay for their food with small electronic devices placed on car windshields or key chains. And, at many McDonald's restaurants in Australia, Denmark, France, Germany, New Zealand and a number of other countries, customers can pay by swiping their debit/credit cards through an electronic card reader. In some cases, they can even get cash back.

Of course, innovation does not always involve technology. Take, for instance, McCafé—an innovative specialty coffee and gourmet dessert concept that is driving incremental sales during off-peak hours. Incorporated into traditional McDonald's restaurants, they have a distinct European atmosphere that is unpretentious, vibrant and energetic. A success in Australia, where our people originally developed the concept, we currently are operating more than 300 McCafés in over 15 countries, including Argentina, Italy and Portugal.

Clearly, we are working on many fronts to make each and every customer feel special on every visit to McDonald's. We recognize this is an ambitious goal. Yet, when we achieve it, we will also achieve enduring profitable growth for the McDonald's System and our shareholders.

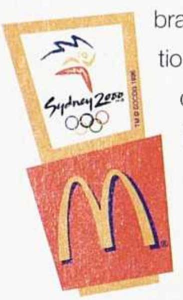
Indeed, our goal is also our reward!


like a smile — or two

news

Taste of the Olympics

Customers around the world celebrated the 2000 Summer Olympics at McDonald's through a variety of themed brand-building promotions. In Germany, customers enjoyed five flavorful burgers, one for each of the five continents represented by the Olympic Rings. And in the U.K., we enticed customers with an Australian-themed promotion featuring Bondi BBQ burgers, McAussie Chicken sandwiches and Cheesy Boomerangs (mozzarella sticks). By offering customers gold-medal winning tastes, these promotions helped build sales in these markets.



We will continue to leverage the Olympic spirit to enhance our brand and excite customers as a global sponsor of the 2002 Winter Games in Salt Lake City, Utah, U.S.A., and 2004 Summer Games in Athens, Greece.

Take a walk on the wild side

When your taste buds yearn for a little adventure, McDonald's has just the ticket . . . our New Tastes Menu in the U.S.

Leveraging our Made For You food preparation system, this menu features a rotating selection of mouthwatering entrees and desserts like the Crispy Chicken McClub, Cheddar Melt, Fajita Big N' Tasty, Sausage Breakfast Burrito and Root Beer Floats. The New Tastes Menu will showcase new, regional, seasonal and value-based offerings that appeal to local taste preferences. Great taste and variety help keep customers coming back to McDonald's.

Best place to work

***Fortune* magazine recognized McDonald's as among America's 50 Best Companies for minorities to work. *Fortune* also ranked us first in minority purchasing practices. In fact, we sourced about $3 billion worth of goods and services from women- and minority-owned firms in 2000. Also in the U.S., the National Association of Black Accountants, *Hispanic Magazine* and *Latina Style Magazine* recognized McDonald's as a great place for women and minorities to work.**

The world's greatest crew

In a global competition to judge the speed, accuracy, friendliness and teamwork of McDonald's crew from around the world, the All-Japan team took first place. The other finalists included crew teams from Canada, Mexico and the U.S. To earn the right to participate in this first-ever international crew competition held at the Rock N' Roll McDonald's in Chicago, Illinois, U.S.A., team members had to work their way through crew competitions at the local, regional and national levels.

Created to recognize and inspire the people behind our global brand, crew competitions between (and within) McDonald's restaurants instill enthusiasm and pride among crew. But the real winners of these competitions are the customers served by energized and motivated crew who are the best at what they do.

Check it out

✔ **Helping others** During Founder's Week 2000, McDonald's employees, owner/operators and suppliers built on our heritage of giving back by providing more than 30,000 hours of volunteer work to nonprofit organizations and communities across the U.S.

✔ **Customers count** McDonald's serves 45 million customers every day in about 29,000 restaurants worldwide.

✔ **#1 franchisor** Once again, *Entrepreneur* magazine ranked McDonald's as the number one franchising organization in the U.S.

✔ **Birthday take-off** Birthday parties at a McDonald's in Budapest, Hungary, are really taking off. An old airplane converted into a birthday party facility is so popular with children and their families that parties here must be reserved three months in advance.

✔ **Asian corporate leader** McDonald's ranked second in the *Far Eastern Economic Review*'s annual corporate leadership survey of multinationals doing business in Asia.

✔ **Community commitment** McHappy Day activities around the world raised more than $1.2 million for Ronald McDonald House Charities and other nonprofit organizations in 2000.

✔ **One of the world's best** *Global Finance Magazine* named McDonald's one of the Best Global Companies in 2000. The criteria used for this award included the Company's profitability, market capitalization, product breakthroughs, success with mergers and acquisitions, percent of business and employees outside the U.S., and market share.

All meal occasions

Satisfying more customers' hunger pangs more often is key to driving long-term growth. Our primary focus is to capture as many meal occasions as possible under The Golden Arches. Beyond this, we're working to build our share of the eating-out market by operating several Other Brands—Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza. At year-end 2000, these Other Brands had more than 1,000 restaurants.

We're also excited about our recent investment in U.K.-based Pret A Manger, a quick-service food concept offering sandwiches, snacks and drinks.

Did you know...

...To take the helm of a McDonald's restaurant, managers must complete our renowned training program which consists of self-study and classroom work, capped off with a leadership course at one of seven Hamburger University (H.U.) campuses. Instructors at H.U.'s campuses in Australia, Brazil, Germany, Hong Kong, Japan, the U.K. and the U.S. annually train about 5,000 students in 28 languages.

Going digital

Drawing on our global restaurant expertise and logistical knowledge, McDonald's and Accel-KKR created eMac Digital to help accelerate the application of Web technology in restaurants. With eMac, we're developing integrated solutions to help restaurant managers reduce costs and increase efficiency, enabling them to focus more time where it counts most—with customers. eMac is also exploring ways to enhance supply chain efficiency through an investment in eFS, a collaborative venture with Cargill, Sysco and Tyson.

Social responsibility

Building bonds with our customers and the communities we serve is critical to McDonald's ongoing success. Just as McDonald's, our owner/operators and suppliers work together to create exceptional restaurant experiences, we also work to strengthen relationships with our communities and enhance McDonald's brand by being a leader in social responsibility.

In 2000, we were honored that *Fortune* magazine ranked us number one in social responsibility. We pledge to build on this heritage by listening, learning and striving to help make the world a better place. Here are a few highlights of our activities in 2000.

Ronald McDonald House Charities

McDonald's supports Ronald McDonald House Charities (RMHC). RMHC works to improve the health and well-being of children by awarding grants to organizations and supporting more than 200 Ronald McDonald Houses in 19 countries. RMHC granted $1.2 million in 2000 to Prevent Child Abuse America's initiative called Healthy Families America, an intensive home visitation program for new parents. This program serves 30,000 families across the U.S. and Canada.

Valuing education

We support education through partnerships to develop curriculum materials, scholarship programs and local efforts sponsored by individual McDonald's restaurants.

> "McDonald's commitment to education and community involvement serves as a great complement and resource to the efforts of school principals, administrators and other educational leaders."
>
> Gerald Tirozzi
> Executive Director,
> National Association of Secondary School Principals

People promise

The Company, our franchisees and affiliates are each committed to creating an environment that values and respects employees, recognizes and rewards their performance and provides them meaningful growth opportunities. We've been recognized for excellent people practices in many countries, including Australia, Austria, Brazil, Sweden and the U.S.

Supplier code

We expect our suppliers to follow the same philosophy: to value and respect their employees and ensure their people practices are aligned with our Code of Conduct. Our compliance monitoring efforts include training and remediation by McDonald's plus external third-party audits. A report on our work in this area is available on McDonald's website or by calling 630-623-7428.

Animal welfare commitment

We made positive changes in the area of farm animal welfare. Using guidelines established by a leading animal welfare expert, we audit our U.S. meat suppliers to ensure the humane treatment of farm animals. Similar audits are being phased in globally. More recently in the U.S., we introduced improved guidelines for the treatment of egg-laying hens.

We also formed the industry's first independent board of academic, industry and animal protection experts to advise us on issues regarding the welfare of farm animals.

Environmental leadership

We continue to focus on reducing energy consumption, decreasing packaging and waste, and implementing sustainable, environmentally sound business practices in our restaurants and throughout our System.

> "McDonald's is proving that a company can do well by doing good."
>
> Fred Krupp
> Executive Director,
> Environmental Defense

For example: In South Korea, we recycled more than 90 percent of our restaurant waste. In Slovenia, our new, state-of-the-art restaurant equipment won a national award for environmental soundness. And for our ongoing waste reduction efforts, the U.S. Environmental Protection Agency named us the WasteWise Partner of the Year.

Commitment to quality & safety

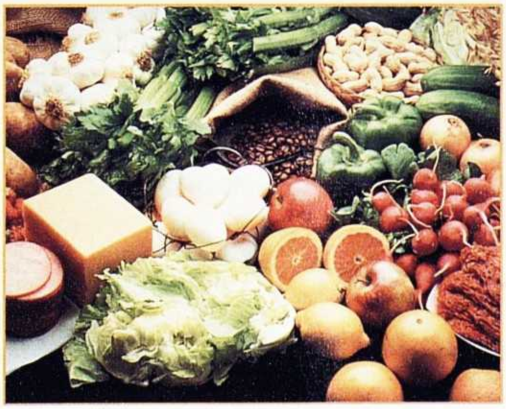
Over the years, McDonald's has been a leader in setting and strictly enforcing high-quality and safety standards—often exceeding those established by industry and governments.

Quite simply, quality and safety are the most important items on our menu, so our customers can have confidence in McDonald's.

We are aligned with world-class suppliers that share our high standards, and our restaurant staffs are equipped to deliver on them every day.

Food quality and safety

McDonald's Quality Assurance Board provides strategic global leadership for all aspects of food quality and safety. Further, our quality assurance and supply chain specialists around the world, work with McDonald's suppliers to ensure compliance with our standards. We operate quality assurance labs around the world, where ongoing product reviews and enhancements take place. In addition, we work closely with our suppliers to encourage innovation, assure best practices and drive continuous improvement.



Further reinforcing our commitment to quality, we have been recognizing exceptional excellence among our suppliers since 1990 with the Sweeney Quality Award. This award was named in honor of a supplier who exemplified a commitment to our high standards. Clearly, our criteria for recognizing excellence has been validated by the fact that our Sweeney Quality Award winner in 1998—Sunny Fresh Foods, a supplier of egg products to the McDonald's System—won the prestigious Malcolm Baldrige National Quality Award the following year.

High standards also are essential to the operations of our restaurants. Proper food storage, handling and cooking practices are an integral part of our training materials, and a food safety check list is used daily in our restaurants to validate that food safety standards and procedures are in place. In addition, our restaurants are inspected for safety compliance.

Safe fun for children

Parents can be confident that our Happy Meal toys and PlayPlaces are safe. For years, we have been using state-of-the-art technology to scientifically analyze the safety of toys and other promotional items for the McDonald's System. We also have been working with the world's leading manufacturers and installers of fun and safe playground equipment and renowned safety consultants so that playtime at McDonald's meets our strict specifications.

Sharing our expertise

The safety of customers is paramount—whether they are at our restaurants or elsewhere. So, we are pleased to share our knowledge and expertise.

In fact, we have been in the somewhat unique position of being asked to share our food safety criteria and processes with governments around the world. Notably, a McDonald's executive serves on the National Advisory Committee on Microbiological Criteria for Foods, a U.S. organization that advises a number of governmental agencies, including the Food & Drug Administration and the Department of Agriculture, on food safety standards.

Earlier this year, McDonald's and RAM Consulting, a world leader in safety analysis, testing and consulting, shared state-of-the-art equipment and technology with the U.S. Consumer Product Safety Commission, to help its staff better evaluate toy safety and prevent injuries to children. This technology includes a life-like doll that is designed to test for potential suffocation hazards. We believe this tool, which within the Company is sometimes affectionately referred to as McBaby, will help save children's lives.

In addition, we provided funding to the National Playground Safety Institute, America's leader in playground safety training, to underwrite the development of a new safety training program.

CFO review: Why I believe McDonald's is a good investment today

> We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time.

McDonald's is well positioned to benefit from the world's growing population and the enduring needs and desires of people for great-tasting food, value and convenience.

Global growth opportunities. There are enormous opportunities for McDonald's around the world. In the U.S., we have 13,000 McDonald's restaurants serving a population of nearly 300 million people, and we continue to grow sales at existing restaurants and add new restaurants. In Europe, the population is more than twice as large as the U.S., and we operate 5,500 McDonald's restaurants. In Asia/Pacific, where more than 60 percent of the world's population lives, we have 6,200 McDonald's. And in Latin America, where we operate only 1,500 restaurants, the strong family culture, young demographics and large population align well with McDonald's offerings.

Brand. The McDonald's brand is one of the most well-known and recognized brands in the world. It stands for Big Mac, Chicken McNuggets and Happy Meals...PlayPlaces and Ronald McDonald... quick service, cleanliness, value and convenience. The brand is also respected because of the McDonald's System's commitment to local communities and to adhering to the highest safety standards.

Competitive strengths. McDonald's is a leader in the global food service industry. We serve 45 million customers every day in 29,000 restaurants in 120 countries around the world. We are part of customers' everyday lives, and we have the leading market position in virtually every market in which we operate.

Our global supply infrastructure is unparalleled and allows us to achieve economies of scale and offer great value to customers.

Our core competencies include operations, menu management, marketing and real estate. We have talented local management and staff who understand their customers and can quickly adapt to changing market dynamics.

We have the best franchisees in the world. Their entrepreneurial spirit, collaboration, enthusiasm and expertise continue to drive our business today.

Social responsibility. McDonald's has been recognized as a leader in this area. Our efforts encompass support of educational programs and Ronald McDonald House Charities, environmental and animal welfare initiatives, and local community involvement.

Strong cash flow. Over the last three years, McDonald's cash from operations totaled $8.5 billion. We use our cash flow primarily to invest in our growing business. We invested $5.7 billion in capital expenditures over the last three years, resulting in free cash flow of $2.8 billion.

Efficient use of capital. Our first priority is to invest in Brand McDonald's by adding restaurants and investing in sales-building initiatives. We earn a superior return on these investments both by operating restaurants and by receiving rents and service fees under our franchise agreements.

Our second priority is to grow our other restaurant concepts to capture those meal occasions that McDonald's cannot optimize. To do so, we have invested in Aroma Café, Boston Market, Chipotle Mexican Grill, Donatos Pizza and Pret A Manger.

With our free cash flow and credit capacity, we repurchase shares and pay dividends to enhance shareholder value. Over the past 10 years, we purchased $7.1 billion or 301 million shares of our stock and paid $2 billion in common dividends.

Financial performance. We continue to achieve returns in excess of our cost of capital, and our objective is to increase returns over time. In certain markets, where we are investing for the future, it will take a while to achieve such returns. Yet, in many established markets, we are achieving excellent returns, approaching or exceeding 20 percent. In 2000, our consolidated return on assets was 15.9 percent.

McDonald's business has grown steadily over the past 10 years, and our plan is to continue to do so. Our Systemwide sales and earnings per share increased 7.9 percent and 10.5 percent, respectively, on a compound annual basis over the last 10 years.

As a shareholder, I am excited about McDonald's future because of the System's many strengths and the opportunities I see ahead.

Michael L. Conley
Executive Vice President, Chief Financial Officer
March 8, 2001

Nature of business

The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald's brand. Approximately 80% of McDonald's restaurants and more than 80% of the Systemwide sales of McDonald's restaurants are in eight markets: Australia, Brazil, Canada, France, Germany, Japan, the U.K. and the U.S. Throughout this discussion, McDonald's restaurant businesses in these eight markets collectively are referred to as "major markets."

To capture additional meal occasions, the Company also operates other restaurant concepts: Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza. Collectively these four businesses are referred to as "Other Brands." Throughout this discussion, Other Brands' financial information is included in the Other segment.

In February 2001, the Company acquired a minority interest in U.K.-based Pret A Manger, which is a quick-service food concept that serves mainly sandwiches, snacks and drinks during lunchtime.

Consolidated operating results

Operating results

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	2000 Amount	2000 Increase/ (decrease)	1999 Amount	1999 Increase/ (decrease)	1998 Amount
Systemwide sales	**$40,181**	**4%**	$38,491	7%	$35,979
Revenues					
Sales by Company-operated restaurants	**$10,467**	**10%**	$ 9,512	7%	$ 8,895
Revenues from franchised and affiliated restaurants	**3,776**	**1**	3,747	6	3,526
Total revenues	**14,243**	**7**	13,259	7	12,421
Operating costs and expenses					
Company-operated restaurants	**8,750**	**12**	7,829	8	7,261
Franchised restaurants	**772**	**5**	738	9	678
Selling, general & administrative expenses	**1,587**	**7**	1,477	1	1,458
Other operating income, net	**(196)**	***nm***	(124)	*nm*	(60)
Made For You costs	**–**	***nm***	19	*nm*	162
Special charge	**–**	***nm***	–	*nm*	160
Total operating costs and expenses	**10,913**	**10**	9,939	3	9,659
Operating income (1)	**3,330**	**–**	3,320	20	2,762
Interest expense	**430**	**8**	396	(4)	414
Nonoperating expense, net	**18**	***nm***	40	(2)	41
Income before provision for income taxes (1)	**2,882**	**–**	2,884	25	2,307
Provision for income taxes (1)	**905**	**(3)**	936	24	757
Net income (1)	**$ 1,977**	**2%**	$ 1,948	26%	$ 1,550
Net income per common share (1)	**$ 1.49**	**3%**	$ 1.44	26%	$ 1.14
Net income per common share–diluted (1)	**1.46**	**5**	1.39	26	1.10

(1) The 1998 results include $162 million of Made For You costs and the $160 million special charge for a pretax total of $322 million ($219 million after tax or $0.16 per share). See discussion on pages 42 and 43.
nm Not meaningful.

The following table presents the 2000 growth rates for reported and constant currency results as well as the 1999 growth rates for reported results, results adjusted for 1998 Made For You costs and the 1998 special charge, and the adjusted results on a constant currency basis. All information in constant currencies excludes the effect of foreign currency translation on reported results, except for hyperinflationary economies, such as Russia, whose functional currency is the U.S. Dollar.

Constant currency operating results

	2000 Increase As reported	2000 Increase Constant currency (1)	1999 Increase As reported	1999 Increase Adjusted (2)	1999 Increase Constant currency (1,2)
Systemwide sales	**4%**	**7%**	7%	7%	8%
Revenues	**7**	**12**	7	7	10
Operating income	**–**	**5**	20	8	10
Net income	**2**	**6**	26	10	13
Net income per common share	**3**	**8**	26	11	13
Net income per common share–diluted	**5**	**10**	26	10	13

(1) Excludes the effect of foreign currency translation on reported results.
(2) Excludes 1998 Made For You costs and the 1998 special charge.

The primary currencies negatively affecting reported results in 2000 were the Euro, which is the currency in 12 of our European markets including France and Germany, the British Pound and the Australian Dollar, partly offset by the stronger Japanese Yen. In 1999, the reported results were negatively affected primarily by the Brazilian Real, the Euro and the British Pound, partly offset by the stronger Japanese Yen, Australian Dollar and Southeast Asian currencies.

In 2000 and 1999, the stronger Japanese Yen had a greater positive currency translation effect on sales compared with revenues. This is due to our affiliate structure in Japan. Under this structure, we record a royalty in revenues based on a percent of Japan's sales, whereas all of Japan's sales are included in Systemwide sales. For this reason, growth rates for Systemwide sales in both years were less negatively affected by foreign currency translation than were revenues.

Systemwide sales

For the first time, Systemwide sales exceeded $40 billion, increasing 7% in constant currencies in 2000. Systemwide sales include sales by all restaurants, whether operated by the Company, by franchisees or by affiliates operating under joint-venture agreements. We continue to focus on increasing market share through positive comparable sales and strategic restaurant development, with an emphasis on improving customer satisfaction through quality, service, cleanliness

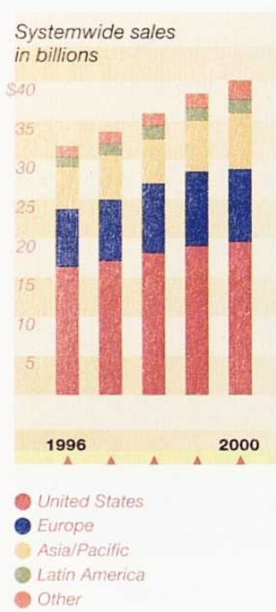
and value. Constant currency sales increases in 2000 and 1999 were due to restaurant expansion and positive comparable sales.

Systemwide sales

DOLLARS IN MILLIONS	2000 Amount	2000 Increase/(decrease) As reported	2000 Increase/(decrease) Constant currency[1]	1999 Amount	1999 Increase/(decrease) As reported	1999 Increase/(decrease) Constant currency[1]	1998 Amount
U.S.	**$19,573**	**3%**	***na***	$19,006	5%	*na*	$18,123
Europe	**9,293**	**(3)**	**9%**	9,557	7	12%	8,909
Asia/Pacific	**7,051**	**10**	**9**	6,436	15	6	5,579
Latin America	**1,790**	**7**	**9**	1,665	(5)	15	1,761
Other[2]	**2,474**	**35**	**36**	1,827	14	15	1,607
Total	**$40,181**	**4%**	**7%**	$38,491	7%	8%	$35,979

(1) Excludes the effect of foreign currency translation on reported results.
(2) Includes Systemwide sales for Other Brands of $605 million in 2000 and $91 million in 1999.
na Not applicable.

In the U.S. and Europe, expansion and positive comparable sales drove sales increases in 2000 and 1999. In the U.S., successful promotions combined with local market initiatives and new product introductions contributed to the increases in both years. The primary contributors to Europe's constant currency sales growth in both years were France, Italy, Spain and the U.K. In addition, Germany's sales increased in both 2000 and 1999. Europe's results were dampened in 2000 by the decline in consumer confidence regarding the safety of the beef supply in certain European markets, which began in the fourth quarter and is expected to continue in the near term. In 1999, Europe's results were affected by the difficult economic conditions in Russia.



In Asia/Pacific, expansion drove the 2000 and 1999 constant currency sales increases. Comparable sales were flat in 2000 and negative in 1999. Double-digit comparable sales growth in China also contributed to the sales increase in 2000. These results were partly offset by weak consumer spending in Australia due to the goods and services tax introduced in July 2000, and this negative impact is expected to continue in the first half of 2001. In 1999, China, South Korea and the Southeast Asian markets were the primary contributors to the increase.

In Latin America, the 2000 and 1999 constant currency sales increases were driven by expansion, partly offset by negative comparable sales. Strong positive comparable sales in Mexico helped drive the increases in both years. In addition, 1999 benefited from double-digit positive comparable sales in Venezuela. Weak consumer spending continued to negatively affect most markets in this segment in both years.

In the Other segment, the constant currency sales increases for 2000 and 1999 were primarily driven by the addition of Other Brands, as well as positive comparable sales in Canada.

Average annual sales — McDonald's restaurants

DOLLARS IN THOUSANDS	2000 Amount	2000 Increase/(decrease) Constant currency[2]	1999 Amount	1999 Increase/(decrease) Constant currency[2]	1998 Amount
Per restaurant[1]					
Traditional:					
U.S.	**$1,647**	**1%**	$1,625	3%	$1,584
Europe	**1,851**	**(2)**	2,130	–	2,227
Asia/Pacific	**1,420**	**(2)**	1,446	(7)	1,433
Latin America	**1,333**	**(7)**	1,464	(5)	1,890
Canada, Middle East & Africa	**1,336**	**1**	1,326	–	1,340
Satellite:					
U.S.	**$ 536**	**9%**	$ 490	7%	$ 459
Outside the U.S.[3,4]	**598**	**2**	561	2	490
Per new restaurant[5]					
Traditional:					
U.S.	**$1,570**	**7%**	$1,473	11%	$1,332
Europe	**1,430**	**(4)**	1,673	3	1,700
Asia/Pacific	**1,219**	**6**	1,131	3	1,009
Latin America	**1,030**	**(9)**	1,152	(12)	1,634
Canada, Middle East & Africa	**911**	**(11)**	1,045	15	943
Satellite:[6]					
Outside the U.S.[3,4]	**$ 649**	**8%**	$ 574	–	$ 504

(1) McDonald's restaurants in operation at least 13 consecutive months.
(2) Excludes the effect of foreign currency translation on reported results.
(3) Prior years have been restated to exclude dessert-only kiosks.
(4) Represents satellite restaurants located in Canada and Japan, which comprise substantially all satellites outside the U.S.
(5) McDonald's restaurants in operation at least 13 consecutive months but not more than 25 months.
(6) Excludes U.S. because the Company is not currently opening a significant number of satellite restaurants in the U.S.

Average sales in constant currencies are affected by comparable sales as well as the size, location and number of new restaurants. In 2000 and 1999, positive comparable sales primarily drove the increases in U.S. average annual sales per traditional restaurant. In segments outside the U.S., the decreases in average annual sales per traditional restaurant on a constant currency basis were primarily due to the significant number of new restaurants added.

The number of new restaurants affects average sales as new restaurants historically have taken a few years to reach long-term volumes. In addition, over the last several years we have opened more restaurants outside the U.S. in lower density areas and in countries with lower average sales volumes and correspondingly lower average development costs.

In 2000 and 1999, average sales for new U.S. traditional restaurants increased due to selective expansion in higher volume locations and the development of larger facilities that support higher average sales. In 2000, average sales for new traditional restaurants in Europe and Latin America declined due to a higher proportion of openings in lower volume markets such as Italy and Poland, and Chile and Mexico, respectively. Asia/Pacific's average sales for new traditional restaurants increased in 2000 due to higher sales volumes for openings in China and a higher proportion of openings in higher

volume markets such as Japan. Average sales for new traditional restaurants in the Canada, Middle East & Africa grouping declined due to a higher proportion of openings in Saudi Arabia and lower sales volumes for openings in South Africa.

Satellite restaurants generally have significantly lower development costs and sales volumes than traditional restaurants. The use of these small, limited-menu restaurants has allowed profitable expansion into areas that would otherwise not have been feasible. In 2000, average annual sales for satellite restaurants increased in the U.S. partly due to the closing of certain low-volume satellites and increased outside the U.S. primarily due to higher sales volumes for openings in Japan.

For an added perspective, on a consolidated basis, 2000 and 1999 average annual sales of restaurants opened more than 25 months increased over the prior year in constant currencies.

Total revenues

Total revenues include sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees include rent, service fees and royalties that are based on a percent of sales with specified minimum payments along with initial fees. Fees vary by type of site and investment by the Company, and also according to local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise agreements that generally have 20-year terms.

Revenues grow as new restaurants are added and as sales build in existing restaurants. Menu price changes also affect revenues and sales, but it is impractical to quantify their impact because of different pricing structures, new products, promotions and product-mix variations among restaurants and markets.

Revenues

	2000			1999			1998
		Increase/(decrease)			Increase/(decrease)		
DOLLARS IN MILLIONS	Amount	As reported	Constant currency[1]	Amount	As reported	Constant currency[1]	Amount
U.S.	**$ 5,259**	**3%**	***na***	$ 5,093	5%	*na*	$ 4,868
Europe	**4,754**	**(3)**	**7%**	4,925	10	15%	4,467
Asia/Pacific	**1,987**	**8**	**11**	1,832	12	9	1,633
Latin America	**949**	**40**	**41**	680	(16)	10	814
Other[2]	**1,294**	**78**	**79**	729	14	15	639
Total	**$14,243**	**7%**	**12%**	$13,259	7%	10%	$12,421

(1) Excludes the effect of foreign currency translation on reported results.
(2) Includes revenues for Other Brands of $564 million in 2000 and $57 million in 1999.
na Not applicable.

On a constant currency basis, total revenues increased at a higher rate than sales in 2000 due to the addition of Other Brands, which are primarily Company-operated, as well as the consolidation of Argentina and Indonesia for financial reporting purposes. In 1999, total revenues increased at a greater rate than sales due to the higher unit growth rate of Company-operated restaurants relative to Systemwide restaurants, primarily in Europe, and the consolidation of Sweden.

Operating income

Operating income increased $10 million in 2000 and $236 million in 1999, excluding 1998 Made For You costs and the 1998 special charge. In constant currencies, these increases were $161 million or 5% in 2000 and $303 million or 10% in 1999. The constant currency increases in 2000 and 1999 were primarily due to higher combined operating margin dollars and other operating income, partly offset by higher selling, general & administrative expenses. Including 1998 Made For You costs and the 1998 special charge, reported operating income increased 20% in 1999.

Operating income from the major markets accounted for more than 90% of consolidated operating income in 2000, 1999 and 1998, excluding 1998 Made For You costs and the 1998 special charge.

Operating income

	2000			1999			1998
		Increase/(decrease)			Increase/(decrease)		
DOLLARS IN MILLIONS	Amount	As reported	Constant currency[1]	Amount	As reported	Constant currency[1]	Amount
U.S.	**$1,773**	**7%**	***na***	$1,653	38%	8%[2]	$1,202[3]
Europe	**1,180**	**(6)**	**6%**	1,257	8	12	1,167
Asia/Pacific	**442**	**5**	**6**	422	17	10	360
Latin America	**103**	**(23)**	**(23)**	133	(30)	(9)	189
Other[4]	**94**	**(20)**	**(20)**	117	(3)	(2)	120
Corporate	**(262)**	**–**	***na***	(262)	5	*na*	(276)
Total	**$3,330**	**–**	**5%**	$3,320	20%	10%[2]	$2,762[3]

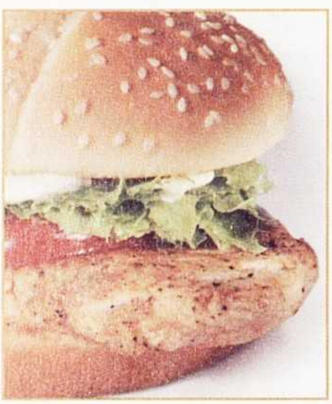
(1) Excludes the effect of foreign currency translation on reported results.
(2) Excludes 1998 Made For You costs and the 1998 special charge.
(3) Includes Made For You costs of $162 million and the special charge of $160 million for a total of $322 million.
(4) Includes operating losses for Other Brands of $41 million in 2000 and $7 million in 1999.
na Not applicable.

Segment operating income has been restated to break out corporate general & administrative expenses to be consistent with the way management currently evaluates segment performance. The majority of these costs were previously included in the U.S. segment.

U.S. operating income increased $120 million or 7% in 2000 and $129 million or 8% in 1999, excluding 1998 Made For You costs and the 1998 special charge, and accounted for about 50% of consolidated operating income in both years. The increases in both years were due to higher combined operating margin dollars, lower selling, general & administrative expenses and higher other operating income. Including 1998 Made For You costs and the 1998 special charge, U.S. operating income increased $451 million or 38% in 1999. Prior to the restatement to break out corporate general & administrative expenses, U.S. operating income increased 9% in 2000 and 11% in 1999, excluding 1998 Made For You costs and the 1998 special charge.

Europe's operating income increased 6% in 2000 and 12% in 1999 in constant currencies, accounting for more than 35% of consolidated operating income in both years. The increase in 2000 was primarily driven by strong operating results in France, Italy and Spain. In 1999, Europe's operating income growth benefited from the consolidation of Sweden, as well as strong results in France, Germany, Spain and the U.K. Europe's results were dampened in 2000 by the decline in consumer confidence regarding the safety of the beef supply in certain European markets, which began in the fourth quarter, and in 1999 by the difficult economic conditions in Russia. France, Germany and the U.K. accounted for about 75% of Europe's operating income in 2000, 1999 and 1998.

Asia/Pacific's operating income increased 6% in 2000 and 10% in 1999 in constant currencies. The increases in both years were driven primarily by Japan, which benefited from the partial sale of its ownership in Toys 'R' Us Japan in 2000 and a lower effective tax rate in 1999, as well as strong results in China and South Korea. In addition, Taiwan contributed to the increase in 2000 but tempered the segment's results in 1999, due to the effect of the September 1999 earthquake. Results in 2000 were negatively affected by the introduction of the goods and services tax in Australia in July 2000. Australia and Japan accounted for more than 60% of Asia/Pacific's operating income in 2000, 1999 and 1998. Beginning January 1, 2001, this segment will benefit from an increase in the royalty percent received from our Japanese affiliate.



Latin America's operating income decreased 23% in 2000 and 9% in 1999 in constant currencies. Results in both years were negatively impacted by the difficult economic conditions experienced by most markets in the segment. Partly offsetting the decreases were strong performances in Mexico and Venezuela in both years, as well as the consolidation of Argentina in 2000. Brazil accounted for more than 55% of Latin America's operating income in each of the past three years.

Corporate general & administrative expenses benefited in 2000, 1999 and 1998 from savings resulting from the home office productivity initiative.

Operating margins

Operating margin information and discussions relate to McDonald's restaurants only and exclude Other Brands.

Company-operated margins

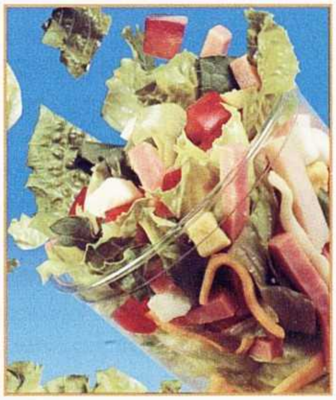
Company-operated margin dollars are equal to sales by Company-operated restaurants less the operating costs of these restaurants. Company-operated margin dollars declined $4 million in 2000, compared with a $40 million increase in 1999. In constant currencies, Company-operated margin dollars increased $73 million or 4% in 2000 and $88 million or 5% in 1999. The constant currency increases were primarily driven by expansion and positive comparable sales.

Company-operated margins were 16.9% of sales in 2000, 17.7% in 1999 and 18.4% in 1998. Operating cost trends as a percent of sales were as follows: food & paper costs increased in 2000 and were flat in 1999; payroll costs were flat in 2000 and increased in 1999; and occupancy & other operating expenses increased in both years.

Company-operated margins—McDonald's restaurants

IN MILLIONS	**2000**	1999	1998
U.S.	**$ 521**	$ 516	$ 490
Europe	**683**	743	703
Asia/Pacific	**289**	267	242
Latin America	**95**	70	118
Canada, Middle East & Africa	**82**	78	81
Total	**$1,670**	$1,674	$1,634
PERCENT OF SALES			
U.S.	**17.0%**	17.5%	17.3%
Europe	**18.3**	19.2	20.0
Asia/Pacific	**16.2**	16.6	16.9
Latin America	**12.4**	14.1	19.1
Canada, Middle East & Africa	**14.5**	14.9	16.0
Total	**16.9%**	17.7%	18.4%

In the U.S., food & paper costs were lower as a percent of sales in 2000 and 1999, primarily due to less waste (partly as a result of the implementation of our Made For You food preparation system), and payroll costs were higher in both years as a result of higher average hourly rates. Occupancy & other operating expenses were higher in 2000 than 1999 and lower in 1999 than 1998.



Europe's Company-operated margin percent declined in 2000 as all costs increased as a percent of sales. The difficult economic conditions in Russia accounted for more than half of the decline in Europe's margin percent in 1999.

In Asia/Pacific, weak comparable sales in both years negatively affected Company-operated margins as a percent of sales. The September 1999 earthquake in Taiwan, as well as a difficult comparison due to strong 1998 promotions in Hong Kong contributed to Asia/Pacific's 1999 decline. In Latin America, the margin percent declines were due to difficult economic conditions in most markets and negative comparable sales in both years.

Franchised margins

Franchised margin dollars are equal to revenues from franchised and affiliated restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented more than 60% of the combined operating margins in 2000, 1999 and 1998. Franchised margin dollars declined $6 million in 2000, compared with a $160 million increase in 1999. In constant currencies, franchised margin dollars increased $119 million or 4% in 2000 and $220 million or 8% in 1999, primarily driven by expansion and positive comparable sales.

Franchised margins—McDonald's restaurants

IN MILLIONS	2000	1999	1998
U.S.	**$1,765**	$1,730	$1,650
Europe	**802**	828	758
Asia/Pacific	**173**	187	173
Latin America	**135**	144	155
Canada, Middle East & Africa	**127**	119	112
Total	**$3,002**	$3,008	$2,848
PERCENT OF REVENUES			
U.S.	**80.4%**	81.0%	80.9%
Europe	**78.3**	79.0	80.0
Asia/Pacific	**82.7**	83.6	84.3
Latin America	**73.0**	77.5	79.7
Canada, Middle East & Africa	**78.9**	78.5	80.2
Total	**79.5%**	80.3%	80.8%

The declines in the consolidated margin percent in 2000 and 1999 reflected higher occupancy costs due to an increased number of leased sites in all geographic segments. Our strategy of leasing a higher proportion of new sites over the past few years has reduced initial capital requirements and related interest expense. However, as anticipated, franchised margins as a percent of applicable revenues have been negatively impacted because financing costs implicit in the lease are included in rent expense, which affects these margins. For owned sites, financing costs are reflected in interest expense, which does not affect these margins. The higher occupancy costs were partly offset by positive comparable sales in 2000 and 1999.

Also, our purchase of a majority interest in certain affiliate markets in 2000 and 1999 shifted revenues from franchised and affiliated restaurants to Company-operated restaurants, reducing the franchised restaurant margin percents in both Asia/Pacific and Latin America in 2000 and Europe in 1999.

Selling, general & administrative expenses

Consolidated selling, general & administrative expenses increased 7% in 2000 and 1% in 1999. Selling, general & administrative expenses as a percent of sales were 4.0% in 2000, 3.8% in 1999 and 4.1% in 1998. The increase in 2000 was primarily due to spending to support the development of Other Brands and the consolidation of Argentina and Indonesia. Excluding Other Brands and the consolidations, selling, general & administrative expenses increased 1% in 2000. Selling, general & administrative expenses in 2000 benefited from weaker foreign currencies and lower expense for performance-based incentive compensation. The increase in 1999 primarily was due to the consolidation of Sweden and the addition of Other Brands, partly offset by weaker foreign currencies. U.S. selling, general & administrative expenses decreased in both 2000 and 1999 due to savings resulting from the home office productivity initiative. As a result of the initiative, which benefited both the U.S. and corporate segments, the Company reached its goal of saving about $100 million annually beginning in 2000.

Selling, general & administrative expenses

	2000			1999			1998
		Increase/(decrease)			Increase/(decrease)		
DOLLARS IN MILLIONS	Amount	As reported	Constant currency(1)	Amount	As reported	Constant currency(1)	Amount
U.S.	**$ 581**	**(1)%**	***na***	$ 584	(2)%	*na*	$ 593
Europe	**336**	**(3)**	**8%**	348	6	11%	328
Asia/Pacific	**127**	**9**	**13**	117	9	7	107
Latin America	**120**	**45**	**45**	83	(2)	22	85
Other(2)	**161**	**94**	**96**	83	20	21	69
Corporate	**262**	**–**	***na***	262	(5)	*na*	276
Total	**$1,587**	**7%**	**11%**	$1,477	1%	4%	$1,458

(1) Excludes the effect of foreign currency translation on reported results.
(2) Includes selling, general & administrative expenses for Other Brands of $85 million in 2000 and $12 million in 1999.
na Not applicable.

Selling, general & administrative expenses have been restated to break out corporate expenses from the operating segments. Corporate expenses are composed of home office support costs in areas such as facilities, finance, human resources, information technology, legal, supply chain management and training.

Other operating income, net

Other operating income includes gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, net gains or losses from property dispositions and other transactions related to franchising and the food service business.

Other operating income, net

IN MILLIONS	2000	1999	1998
Gains on sales of restaurant businesses	**$ 87**	$ 75	$ 61
Equity in earnings of unconsolidated affiliates	**121**	138	89
Net losses from property dispositions	**–**	(71)	(71)
Other	**(12)**	(18)	(19)
Total	**$196**	$124	$ 60

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants, as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements (arrangements where the Company leases the businesses, including equipment, to franchisees who have options to purchase the businesses). The Company's purchases and sales of businesses with its franchisees and affiliates are aimed at achieving an optimal ownership mix in each market. These transactions are an integral part of our business and resulting gains are recorded in operating income. Equity in earnings of unconsolidated affiliates—businesses in which the Company actively participates, but does not control—is reported after interest expense and income taxes, except for U.S. restaurant partnerships, which are reported before income taxes. Net losses from property dispositions result from disposals of properties due to restaurant closings, relocations and other transactions.

Equity in earnings from unconsolidated affiliates in 1999 included a $21 million gain from the sale of real estate in a U.S. partnership.

Net losses from property dispositions reflected the write-off of $24 million of software in 1999 and a high number of restaurant closings in 1998.

Made For You costs and the special charge related to the 1998 home office productivity initiative are discussed on pages 42 and 43.

Interest expense

Interest expense increased in 2000 due to higher average debt levels, partly offset by weaker foreign currencies. In 1999, interest expense decreased due to lower average interest rates and weaker foreign currencies, partly offset by higher average debt levels. Average debt levels were higher in both years because of the Company using available credit capacity to fund share repurchases.

Nonoperating expense, net

Nonoperating expense includes miscellaneous income and expense items such as interest income, minority interests, and gains and losses related to other investments, financings and translation. Results in 2000 reflected lower minority interest expense, lower translation losses and a gain related to the sale of a partial ownership interest in a majority-owned subsidiary outside the U.S.

Provision for income taxes

The effective income tax rate was 31.4% for 2000, compared with 32.5% for 1999 and 32.8% for 1998. The decrease in the income tax rate in 2000 was the result of a tax benefit resulting from an international transaction. The Company expects its 2001 effective income tax rate to be between 32.0% and 33.0%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $523 million in 2000 and $557 million in 1999. Substantially all of the tax assets arose in the U.S. and other profitable markets, and a majority of them are expected to be realized in future U.S. income tax returns.

Net income and net income per common share

In 2000, net income increased $29 million or 2% and diluted net income per common share increased $.07 or 5%. On a constant currency basis, these increases were $122 million or 6% and $.14 or 10%, respectively. The spread between the percent increase in net income and net income per common share was due to lower weighted-average shares outstanding as a result of shares repurchased and a less dilutive effect from stock options. In 1999, net income and diluted net income per common share increased 10% (13% for both in constant currencies), excluding 1998 Made For You costs and the 1998 special charge. Including these items, reported net income and diluted net income per common share both increased 26% in 1999.

Cash flows

The Company generates significant cash from operations and has substantial credit capacity to fund operating and discretionary spending. Cash from operations totaled $2.8 billion in 2000 and exceeded capital expenditures for the tenth consecutive year. This amount was less than in 1999, primarily due to higher income tax payments as a result of lower tax benefits related to stock option exercises and higher tax gains on the termination of foreign currency exchange agreements. Higher gains on sales of restaurant businesses and property also reduced cash provided by operations, but generated about $40 million of additional cash from investing activities. In 1998, cash provided by operations was reduced by approximately $135 million of Made For You incentive payments. Cash provided by operations, along with borrowings and other sources of cash, is used for capital expenditures, share repurchases, dividends and debt repayments.

Cash provided by operations

DOLLARS IN MILLIONS	2000	1999	1998
Cash provided by operations	**$2,751**	$3,009	$2,766
Free cash flow (1)	**806**	1,141	887
Cash provided by operations as a percent of capital expenditures	**141%**	161%	147%
Cash provided by operations as a percent of average total debt	**35**	42	41

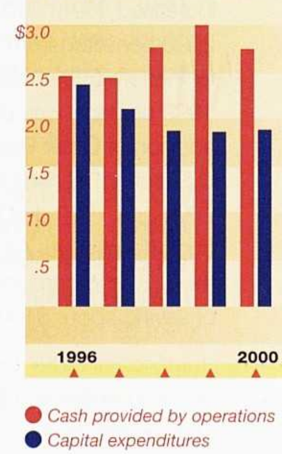
(1) Cash provided by operations less capital expenditures.

In addition to its free cash flow, the Company can meet short-term funding needs through commercial paper borrowings and line of credit agreements. Accordingly, the Company strategically and purposefully maintains a relatively low current ratio, which was .70 at year-end 2000.

Capital expenditures and restaurant development

Capital expenditures increased $77 million or 4% in 2000 and decreased $11 million or 1% in 1999. The increase in 2000 was due to higher spending for Other Brands and the consolidation of Argentina and Indonesia, partly offset by weaker foreign currencies. Capital expenditures for McDonald's restaurants in 2000 and 1999 reflect our strategy of leasing a higher proportion of new sites and the U.S. building program, which gives franchisees the option to own new restaurant buildings. Capital expenditures in 1999 included increased capital outlays for existing U.S. Company-operated restaurants related to implementation of the Made For You food preparation system and spending to update and refresh existing U.S. restaurants. About 90% of qualifying new and rebuilt U.S. traditional restaurant buildings developed in 2000 are owned by franchisees. In addition, the Company leased the land for substantially all new U.S. traditional restaurants opened in 2000. The U.S. building program, which began

Cash flow and capital expenditures in billions



in 1998, combined with our decision to lease more land saved the Company approximately $285 million in capital outlays in 2000 and $230 million in 1999.

More than 60% of capital expenditures was invested in major markets excluding Japan in 2000, 1999 and 1998. Approximately 70% of capital expenditures was invested in markets outside the U.S. in all three years.

Capital expenditures

IN MILLIONS	**2000**	1999	1998
New restaurants	**$ 1,308**	$ 1,231	$ 1,357
Existing restaurants	**507**	515	398
Other properties	**130**	122	124
Total	**$ 1,945**	$ 1,868	$ 1,879
Total assets	**$21,684**	$20,983	$19,784

Expenditures for existing restaurants, including technology to improve service and food quality and enhancements to older facilities, were made to achieve higher levels of customer satisfaction. Expenditures for other properties primarily were for computer equipment and furnishings for office buildings.

The Company's expenditures for new restaurants in the U.S. were minimal as a result of the building and leasing programs previously discussed. For new franchised and affiliated restaurants, which represent about 85% of U.S. restaurants, the Company generally incurs no capital expenditures. However, the Company maintains long-term occupancy rights for the land and receives related rental income. For new Company-operated restaurants, the Company generally leases the land and owns the restaurant building and equipment.

Average development costs outside the U.S. vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment owned by the Company, are managed through the use of optimally sized restaurants, construction and design efficiencies, standardization and global sourcing. In addition, foreign currency fluctuations affect average development costs, especially in those markets where construction materials cannot be obtained locally.

Average development costs for new traditional restaurants in major markets outside the U.S. excluding Japan were approximately $1.6 million in 2000, $1.8 million in 1999 and $1.9 million in 1998. Average annual sales for new traditional restaurants for the same markets were approximately $1.5 million in 2000, $1.7 million in 1999 and $1.8 million in 1998. Both development costs and sales were impacted by weaker foreign currencies. Average development costs for new satellite restaurants located in Canada and Japan, which comprise more than 90% of the satellites outside the U.S., were approximately $200,000 in 2000, 1999 and 1998. The use of these small, limited-menu restaurants, for which the land and building generally are leased, has allowed expansion into areas that would otherwise not have been feasible.

Including affiliates, total land ownership was 40% and 42% of total restaurant sites at year-end 2000 and 1999, respectively.

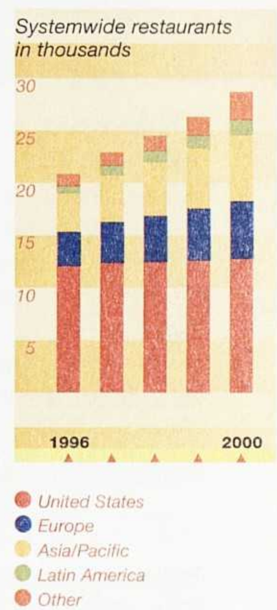
Capital expenditures by affiliates, which were not included in consolidated amounts, were approximately $204 million in 2000, compared with $259 million in 1999. The decrease was primarily due to the consolidation of Argentina in 2000.

Systemwide restaurants (1)

	2000	1999	1998
U.S.	**12,804**	12,629	12,472
Europe	**5,460**	4,943	4,421
Asia/Pacific	**6,260**	5,654	5,055
Latin America	**1,510**	1,299	1,100
Other:			
Canada, Middle East & Africa	**1,665**	1,568	1,447
Other Brands	**1,008**	216	18
Total	**28,707**	26,309	24,513

(1) Adjusted to exclude dessert-only kiosks, primarily located in Latin America, as follows: 600 in 2000, 497 in 1999 and 305 in 1998.

McDonald's continues to focus on managing capital outlays more effectively through selective expansion. In 2000, the Company added 1,606 McDonald's restaurants Systemwide, compared with 1,598 in 1999 and 1,567 in 1998. In addition, the Company added 792 restaurants in 2000 operated by Other Brands, 707 of which were the result of the Boston Market acquisition. In 2001, the Company expects to add 1,600 to 1,700 restaurants, including 1,500 to 1,600 McDonald's restaurants, with continued emphasis on traditional restaurants located primarily outside the U.S.



In 2000, 55% of McDonald's restaurant additions were in the major markets, and we anticipate a similar percent for 2001. In the future, China, Italy, Mexico, South Korea and Spain, which together represented more than 15% of McDonald's additions in 2000, are expected to represent a growing proportion of McDonald's restaurant additions.

Almost 55% of Company-operated restaurants and nearly 85% of franchised restaurants were located in the major markets at the end of 2000. Franchisees and affiliates operated 76% of McDonald's restaurants at year-end 2000. Other Brands' restaurants were primarily Company-operated.

Satellite restaurants at December 31, 2000, 1999 and 1998 were as follows: U.S.–999, 1,048, 1,090; Europe–46, 44, 46; Asia/Pacific (primarily Japan)–1,670, 1,350, 1,134; Latin America–45, 41, 41; and Other (primarily Canada)–291, 263, 237.

Share repurchases and dividends

The Company uses free cash flow and credit capacity to repurchase shares, as we believe this enhances shareholder value. At year-end 2000, the Company held approximately 356 million shares in treasury with a historical cost of $8.1 billion, but a market value of $12.1 billion.

In April 2000, the Company announced a $1 billion increase to its three-year share repurchase program, bringing the total program to $4.5 billion through 2001. The Company purchased approximately $2 billion or 56.7 million shares in 2000, which brought cumulative

purchases under the program to $3.3 billion or 91.1 million shares. The Company expects to purchase the remaining $1.2 billion under the program in 2001.

In order to reduce the overall cost of treasury stock purchases, the Company sells common equity put options in connection with its share repurchase program and receives premiums for these options. During 2000, the Company sold 16.8 million common equity put options and received premiums of $56 million, which were reflected in shareholders' equity as a reduction of the cost of treasury stock purchased. At December 31, 2000, 21 million common equity put options were outstanding. During February 2001, 4.2 million common equity put options were exercised for $175 million. The remaining options expire at various dates through November 2001, with exercise prices between $30.11 and $32.26.

Given the Company's returns on equity and assets, management believes it is prudent to reinvest a significant portion of earnings back into the business and use free cash flow for share repurchases. Accordingly, the common stock dividend yield is modest. However, the Company has paid dividends on common stock for 25 consecutive years and has increased the dividend amount every year. Additional dividend increases will be considered after reviewing returns to shareholders, profitability expectations and financing needs. Beginning in 2000, cash dividends are declared and paid on an annual, instead of quarterly, basis. As in the past, future dividends will be declared at the discretion of the Board of Directors.

Financial position and capital resources

Total assets and returns

Total assets grew by $700 million or 3% in 2000 and $1.2 billion or 6% in 1999. At year-end 2000 and 1999, more than 65% of consolidated assets were located in the major markets excluding Japan. Net property and equipment rose $723 million in 2000 and represented 79% of total assets at year end.

Operating income is used to compute return on average assets, while net income is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

Returns on assets and equity

	2000	1999	1998(1)
Return on average assets	**15.9%**	16.6%	16.4%
Return on average common equity	**21.6**	20.8	19.5

(1) Excludes Made For You costs and the special charge. Including Made For You costs and the special charge, return on average assets was 14.7% and return on average common equity was 17.1%.

In 2000, return on average assets declined primarily due to lower returns in emerging markets, which require substantial investment in infrastructure to support rapid restaurant growth, as well as investing in Other Brands. In general, returns benefited from the Company's continued focus on more efficient capital deployment. This included a more prudent site selection process, leasing a higher proportion of new sites, the U.S. building program that began in 1998, and the use of free cash flow for share repurchases. Also contributing to the increases in return on average common equity in 2000 and 1999 were increases in the average amount of common equity put options outstanding, which reduced average common equity.

Financings and market risk

The Company is exposed to the impact of interest-rate changes and foreign currency fluctuations. McDonald's strives to minimize these risks by employing established risk management policies and procedures and by financing with debt in the currencies in which assets are denominated. See summary of significant accounting policies on page 40 for additional information regarding the use of financial instruments and the impact of new accounting rules on derivatives.

The Company uses global capital markets along with various techniques to meet its financing requirements and reduce interest expense. For example, foreign currency exchange agreements in conjunction with borrowings help obtain desired currencies at attractive rates and maturities. Accordingly, foreign currency-denominated debt as a percent of total debt fluctuates based on market conditions. Interest-rate exchange agreements effectively convert fixed-rate to floating-rate debt, or vice versa. The Company also manages the level of fixed-rate debt to take advantage of changes in interest rates.

The Company uses foreign currency debt and derivatives to hedge foreign currency royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on net income and shareholders' equity. Total foreign currency-denominated debt, including the effects of foreign currency exchange agreements, was $5.1 billion and $5.3 billion at year-end 2000 and 1999, respectively.

Debt highlights

	2000	1999	1998
Fixed-rate debt as a percent of total debt	**58%**	70%	67%
Weighted-average annual interest rate of total debt	**5.8**	5.9	6.6
Foreign currency-denominated debt as a percent of total debt	**60**	76	75
Total debt as a percent of total capitalization (total debt and total shareholders' equity)	**48**	43	43

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Fitch (formerly Duff & Phelps) began rating our debt in 1990 and currently rates it AA. A strong rating is important to the Company's global development plans. The Company has not experienced, and does not expect to experience, difficulty in obtaining financing or refinancing existing debt. At year-end 2000, the Company and its subsidiaries had $1.9 billion available under committed line of credit agreements and $561 million under shelf registrations for future debt issuance. In early 2001, the Company reduced the amount available under committed line of credit agreements to $1.5 billion.

The Company manages its debt portfolio to mitigate the impact of changes in global interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating exchange agreements and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes. All exchange agreements are over-the-counter instruments.

The Company actively hedges selected currencies to reduce the effect of fluctuating foreign currencies on reported results and to minimize the cash exposure of foreign currency royalty and other payments received in the U.S. In addition, where practical, McDonald's restaurants purchase goods and services in local currencies, resulting in natural hedges, and the Company typically finances in local currencies, creating economic hedges.

The Company's exposure is diversified among a broad basket of currencies. At year-end 2000 and 1999, assets in hyperinflationary markets were principally financed in U.S. Dollars. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency exposures

IN MILLIONS OF U.S. DOLLARS	**2000**	1999
Euro	**$1,185**	$1,059
Canadian Dollars	**763**	797
British Pounds Sterling	**638**	669
Australian Dollars	**329**	394
Mexican Pesos	**157**	141
Brazilian Reais	**115**	124

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest-rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments. However, the analysis did not include the potential impact on sales levels or local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received in the U.S. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from year-end 2000 levels nor a 10% adverse change in foreign currency rates from year-end 2000 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

Other matters

Effects of changing prices—inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings—many of which are at fixed costs and partly financed by debt made less expensive by inflation. In hyperinflationary markets, menu board prices typically are adjusted to keep pace with inflation, mitigating the effect on reported results.

Euro conversion

Twelve member countries of the European Union have established fixed conversion rates between their existing currencies ("legacy currencies") and one common currency, the Euro. The Euro is traded on currency exchanges and may be used in certain transactions, such as electronic payments. Beginning in January 2002, new Euro-denominated notes and coins will be issued, and legacy currencies will be withdrawn from circulation. The conversion to the Euro has eliminated currency exchange rate risk for transactions between the member countries, which for McDonald's primarily consists of payments to suppliers. In addition, as we use foreign currency-denominated debt and derivatives to meet financing requirements and to minimize foreign currency risks, certain of these financial instruments are denominated in Euro.

McDonald's has restaurants located in all member countries and has been preparing for the introduction of the Euro for the past several years. The Company currently is addressing the issues involved with the new currency, which include converting information technology systems, recalculating currency risk, recalibrating derivatives and other financial instruments, and revising processes for preparing accounting and taxation records. Based on the work to date, the Company does not believe the Euro conversion will have a significant impact on its financial position, results of operations or cash flows.

Forward-looking statements

Certain forward-looking statements are included in this report. They use such words as "may," "will," "expect," "believe," "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of March 8, 2001. These forward-looking statements involve a number of risks and uncertainties. The following are some of the factors that could cause actual results to differ materially from those expressed in or underlying our forward-looking statements: the effectiveness of operating initiatives and advertising and promotional efforts, the effects of the Euro conversion, as well as changes in: global and local business and economic conditions; currency exchange (particularly the Euro) and interest rates; food, labor and other operating costs; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation; and accounting policies and practices. The foregoing list of important factors is not exclusive.

The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Consolidated statement of income

IN MILLIONS, EXCEPT PER SHARE DATA	Years ended December 31, **2000**	1999	1998
Revenues			
Sales by Company-operated restaurants	**$10,467.0**	$ 9,512.5	$ 8,894.9
Revenues from franchised and affiliated restaurants	**3,776.0**	3,746.8	3,526.5
Total revenues	**14,243.0**	13,259.3	12,421.4
Operating costs and expenses			
Food and packaging	**3,557.1**	3,204.6	2,997.4
Payroll and employee benefits	**2,690.2**	2,418.3	2,220.3
Occupancy and other operating expenses	**2,502.8**	2,206.7	2,043.9
Total Company-operated restaurant expenses	**8,750.1**	7,829.6	7,261.6
Franchised restaurants—occupancy expenses	**772.3**	737.7	678.0
Selling, general & administrative expenses	**1,587.3**	1,477.6	1,458.5
Other operating income, net	**(196.4)**	(124.1)	(60.2)
Made For You costs		18.9	161.6
Special charge			160.0
Total operating costs and expenses	**10,913.3**	9,939.7	9,659.5
Operating income	**3,329.7**	3,319.6	2,761.9
Interest expense, net of capitalized interest of $16.3, $14.3 and $17.9	**429.9**	396.3	413.8
Nonoperating expense, net	**17.5**	39.2	40.7
Income before provision for income taxes	**2,882.3**	2,884.1	2,307.4
Provision for income taxes	**905.0**	936.2	757.3
Net income	**$ 1,977.3**	$ 1,947.9	$ 1,550.1
Net income per common share	**$ 1.49**	$ 1.44	$ 1.14
Net income per common share—diluted	**1.46**	1.39	1.10
Dividends per common share	**$ .22**	$ .20	$ .18
Weighted-average shares	**1,323.2**	1,355.3	1,365.3
Weighted-average shares—diluted	**1,356.5**	1,404.2	1,405.7

The accompanying financial comments are an integral part of the consolidated financial statements.

Consolidated balance sheet

IN MILLIONS, EXCEPT PER SHARE DATA	December 31, **2000**	1999
Assets		
Current assets		
Cash and equivalents	**$ 421.7**	$ 419.5
Accounts and notes receivable	**796.5**	708.1
Inventories, at cost, not in excess of market	**99.3**	82.7
Prepaid expenses and other current assets	**344.9**	362.0
Total current assets	**1,662.4**	1,572.3
Other assets		
Investments in and advances to affiliates	**824.2**	1,002.2
Intangible assets, net	**1,443.4**	1,261.8
Miscellaneous	**705.9**	822.4
Total other assets	**2,973.5**	3,086.4
Property and equipment		
Property and equipment, at cost	**23,569.0**	22,450.8
Accumulated depreciation and amortization	**(6,521.4)**	(6,126.3)
Net property and equipment	**17,047.6**	16,324.5
Total assets	**$21,683.5**	$20,983.2
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	**$ 275.5**	$ 1,073.1
Accounts payable	**684.9**	585.7
Income taxes	**92.2**	117.2
Other taxes	**195.5**	160.1
Accrued interest	**149.9**	131.4
Other accrued liabilities	**608.4**	660.0
Current maturities of long-term debt	**354.5**	546.8
Total current liabilities	**2,360.9**	3,274.3
Long-term debt	**7,843.9**	5,632.4
Other long-term liabilities and minority interests	**489.5**	538.4
Deferred income taxes	**1,084.9**	1,173.6
Common equity put options	**699.9**	725.4
Shareholders' equity		
Preferred stock, no par value; authorized—165.0 million shares; issued—none		
Common stock, $.01 par value; authorized—3.5 billion shares; issued—1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**1,441.8**	1,288.3
Unearned ESOP compensation	**(115.0)**	(133.3)
Retained earnings	**17,259.4**	15,562.8
Accumulated other comprehensive income	**(1,287.3)**	(886.8)
Common stock in treasury, at cost; 355.7 and 309.8 million shares	**(8,111.1)**	(6,208.5)
Total shareholders' equity	**9,204.4**	9,639.1
Total liabilities and shareholders' equity	**$21,683.5**	$20,983.2

The accompanying financial comments are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

IN MILLIONS	Years ended December 31, **2000**	1999	1998
Operating activities			
Net income	**$ 1,977.3**	$ 1,947.9	$ 1,550.1
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	**1,010.7**	956.3	881.1
Deferred income taxes	**60.5**	52.9	35.4
Changes in operating working capital items			
Accounts receivable	**(67.2)**	(81.9)	(29.9)
Inventories, prepaid expenses and other current assets	**(29.6)**	(47.7)	(18.1)
Accounts payable	**89.7**	(23.9)	(12.7)
Taxes and other liabilities	**(45.8)**	270.4	337.5
Other	**(244.1)**	(65.1)	22.9
Cash provided by operations	**2,751.5**	3,008.9	2,766.3
Investing activities			
Property and equipment expenditures	**(1,945.1)**	(1,867.8)	(1,879.3)
Purchases of restaurant businesses	**(425.5)**	(340.7)	(131.0)
Sales of restaurant businesses and property	**302.8**	262.4	191.5
Other	**(144.8)**	(315.7)	(129.4)
Cash used for investing activities	**(2,212.6)**	(2,261.8)	(1,948.2)
Financing activities			
Net short-term borrowings (repayments)	**59.1**	116.7	(604.2)
Long-term financing issuances	**2,381.3**	902.5	1,461.5
Long-term financing repayments	**(761.9)**	(682.8)	(594.9)
Treasury stock purchases	**(2,023.4)**	(891.5)	(1,089.8)
Common stock dividends	**(280.7)**	(264.7)	(239.5)
Other	**88.9**	193.0	206.6
Cash used for financing activities	**(536.7)**	(626.8)	(860.3)
Cash and equivalents increase (decrease)	**2.2**	120.3	(42.2)
Cash and equivalents at beginning of year	**419.5**	299.2	341.4
Cash and equivalents at end of year	**$ 421.7**	$ 419.5	$ 299.2
Supplemental cash flow disclosures			
Interest paid	**$ 469.7**	$ 411.5	$ 406.5
Income taxes paid	**854.2**	642.2	545.9

The accompanying financial comments are an integral part of the consolidated financial statements.

Consolidated statement of shareholders' equity

IN MILLIONS, EXCEPT PER SHARE DATA	Common stock issued Shares	Common stock issued Amount	Additional paid-in capital	Unearned ESOP compensation	Retained earnings	Accumulated other comprehensive income	Common stock in treasury Shares	Common stock in treasury Amount	Total shareholders' equity
Balance at December 31, 1997	1,660.6	$16.6	$ 690.9	$(171.3)	$12,569.0	$ (470.5)	(289.2)	$(3,783.1)	$ 8,851.6
Net income					1,550.1				1,550.1
Translation adjustments (including tax benefits of $84.2)						(52.0)			(52.0)
Comprehensive income									1,498.1
Common stock cash dividends ($.18 per share)					(239.5)				(239.5)
ESOP loan payment				22.5					22.5
Treasury stock purchases							(38.0)	(1,161.9)	(1,161.9)
Common equity put option issuances and expirations, net								20.8	20.8
Stock option exercises and other (including tax benefits of $154.0)			298.3	0.1			22.8	174.7	473.1
Balance at December 31, 1998	1,660.6	16.6	989.2	(148.7)	13,879.6	(522.5)	(304.4)	(4,749.5)	9,464.7
Net income					1,947.9				1,947.9
Translation adjustments (including taxes of $53.5)						(364.3)			(364.3)
Comprehensive income									1,583.6
Common stock cash dividends ($.20 per share)					(264.7)				(264.7)
ESOP loan payment				15.8					15.8
Treasury stock purchases							(24.2)	(932.7)	(932.7)
Common equity put option issuances and expirations, net								(665.9)	(665.9)
Stock option exercises and other (including tax benefits of $185.3)			299.1	(0.4)			18.8	139.6	438.3
Balance at December 31, 1999	1,660.6	16.6	1,288.3	(133.3)	15,562.8	(886.8)	(309.8)	(6,208.5)	9,639.1
Net income					**1,977.3**				**1,977.3**
Translation adjustments (including taxes of $65.1)						**(400.5)**			**(400.5)**
Comprehensive income									**1,576.8**
Common stock cash dividends ($.22 per share)					**(280.7)**				**(280.7)**
ESOP loan payment				**20.1**					**20.1**
Treasury stock purchases							**(56.7)**	**(2,002.2)**	**(2,002.2)**
Common equity put option issuances and expirations, net								**25.5**	**25.5**
Stock option exercises and other (including tax benefits of $80.3)			**153.5**	**(1.8)**			**10.8**	**74.1**	**225.8**
Balance at December 31, 2000	**1,660.6**	**$16.6**	**$1,441.8**	**$(115.0)**	**$17,259.4**	**$(1,287.3)**	**(355.7)**	**$(8,111.1)**	**$9,204.4**

The accompanying financial comments are an integral part of the consolidated financial statements.

Summary of significant accounting policies

Nature of business

The Company operates in the food service industry and primarily operates quick-service restaurant businesses under the McDonald's brand. In addition, the Company operates other restaurant concepts: Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza.

All restaurants are operated by the Company or, under the terms of franchise arrangements, by franchisees who are independent entrepreneurs, or by affiliates operating under joint-venture agreements between the Company and local business people.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less are accounted for by the equity method.

Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation

The functional currency of substantially all operations outside the U.S. is the respective local currency, except for a small number of countries with hyperinflationary economies, where the functional currency is the U.S. Dollar.

Advertising costs

Production costs for radio and television advertising, which are primarily in the U.S., are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and in selling, general & administrative expenses were (in millions): 2000–$595.3; 1999–$522.9; 1998–$486.3.

Stock-based compensation

The Company accounts for stock options as prescribed by Accounting Principles Board Opinion No. 25 and includes pro forma information in the stock options footnote, as provided by Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*.

Property and equipment

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—the lesser of useful lives of assets or lease terms including option periods; and equipment—three to 12 years.

Intangible assets

Intangible assets consist primarily of goodwill, which represents the excess of cost over the net tangible assets of acquired restaurant businesses. Intangible assets are amortized using the straight-line method over an average life of about 30 years.

Financial instruments

The Company uses derivatives to manage risk, not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in, or intercompany loans to, foreign subsidiaries and affiliates. Foreign currency translation adjustments from gains and losses on hedges of long-term investments are recorded in shareholders' equity as other comprehensive income. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating expense, net.

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable, with the offset recorded in interest expense. Gains or losses from the early termination of interest-rate exchange agreements are amortized as an adjustment to interest expense over the shorter of the remaining life of the interest-rate agreement or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial intrinsic value) that are effective as hedges of anticipated foreign currency royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized in the period in which the related royalty or other payment is received.

Forward foreign exchange contracts are also used to mitigate exposure on foreign currency royalty and other payments received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating expense, net. In addition, forward foreign exchange contracts are used to hedge long-term investments in foreign subsidiaries and affiliates. These contracts are marked to market with the resulting gains or losses recorded in shareholders' equity as other comprehensive income.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of another item or terminated.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, subsequently amended by SFAS Nos. 137 and 138, which is required to be adopted in years beginning after June 15, 2000. The new rules will require the Company to recognize all derivatives on the balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The Company will adopt the new rules effective January 1, 2001, and they will not have a material effect on the Company's results of operations or financial position.

Common equity put options

During 2000, 1999 and 1998, the Company sold 16.8 million, 27.0 million and 7.3 million common equity put options, respectively, in connection with its share repurchase program. Premiums received are recorded in shareholders' equity as a reduction of the cost of treasury stock purchased and were $56.0 million in 2000, $97.5 million in 1999 and $20.5 million in 1998. At December 31, 2000, 21.0 million common equity put options were outstanding. The options expire at various dates through November 2001 at exercise prices between $30.11 and $41.98. At December 31, 2000, the $699.9 million total exercise price of these outstanding options was classified in common equity put options, and the related offset was recorded in common stock in treasury, net of the premiums received.

Per common share information

Diluted net income per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of stock options, calculated using the treasury stock method. The dilutive effect of stock options was (in millions of shares): 2000–33.3; 1999–48.9; 1998–40.4.

Statement of cash flows

The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

Segment and geographic information

The Company operates in the food service industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. The Company's reportable segments are based on geographic area. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company's share of operating results of affiliates after interest expense and income taxes, except for U.S. affiliates, which are reported before income taxes. Royalties and other payments received from subsidiaries outside the U.S. were (in millions): 2000–$603.6; 1999–$568.3; 1998–$526.0.

The Other segment includes McDonald's restaurant operations in Canada, the Middle East and Africa as well as results from Aroma Café, Boston Market, Chipotle Mexican Grill and Donatos Pizza.

Segment operating income has been restated for all years presented to break out corporate general & administrative expenses from the operating segments to be consistent with the way segment performance currently is evaluated by Company management. Corporate general & administrative expenses are now included as the corporate segment of operating income. These expenses are composed of home office support costs in areas such as facilities, finance, human resources, information technology, legal, supply chain management and training.

Corporate and U.S. segment assets, capital expenditures and depreciation and amortization also have been restated to conform to the new presentation. Corporate assets include corporate cash, investments, asset portions of financing instruments, home office facilities, deferred tax assets and certain intangibles.

IN MILLIONS	2000	1999	1998
U.S.	**$ 5,259.1**	$ 5,093.0	$ 4,868.1
Europe	**4,753.9**	4,924.9	4,466.7
Asia/Pacific	**1,987.0**	1,832.3	1,633.2
Latin America	**949.3**	680.3	814.7
Other	**1,293.7**	728.8	638.7
Total revenues	**$14,243.0**	$13,259.3	$12,421.4
U.S.	**$ 1,773.1**	$ 1,653.3	$ 1,201.4(1)
Europe	**1,180.1**	1,256.5	1,167.5
Asia/Pacific	**441.9**	421.9	359.9
Latin America	**102.3**	133.0	189.2
Other	**94.1**	117.4	120.3
Corporate	**(261.8)**	(262.5)	(276.4)
Total operating income	**$ 3,329.7**	$ 3,319.6	$ 2,761.9(1)
U.S.	**$ 7,876.7**	$ 7,674.3	$ 7,397.8
Europe	**7,083.7**	6,966.8	6,932.1
Asia/Pacific	**2,789.7**	2,828.2	2,659.7
Latin America	**1,855.6**	1,477.5	1,339.6
Other	**1,069.3**	979.3	678.7
Corporate	**1,008.5**	1,057.1	776.5
Total assets	**$21,683.5**	$20,983.2	$19,784.4
U.S.	**$ 468.6**	$ 426.4	$ 392.4
Europe	**797.6**	881.8	870.2
Asia/Pacific	**224.4**	188.4	224.0
Latin America	**245.7**	213.2	236.8
Other	**161.2**	112.3	102.8
Corporate	**47.6**	45.7	53.1
Total capital expenditures	**$ 1,945.1**	$ 1,867.8	$ 1,879.3
U.S.	**$ 417.6**	$ 399.7	$ 375.9
Europe	**296.5**	305.2	268.0
Asia/Pacific	**120.5**	114.9	97.3
Latin America	**69.4**	45.5	42.9
Other	**60.8**	46.2	40.6
Corporate	**45.9**	44.8	56.4
Total depreciation and amortization	**$ 1,010.7**	$ 956.3	$ 881.1

(1) Includes $161.6 million of Made For Your costs and the $160.0 million special charge related to the home office productivity initiative.

Total long-lived assets, primarily property and equipment and intangibles, were (in millions): Consolidated – 2000–$19,798.3; 1999–$19,082.8; 1998–$18,244.4. U.S. based – 2000–$8,373.2; 1999–$7,984.9; 1998–$7,533.2.

Franchise arrangements

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and service fees to the Company, based upon a percent of sales with minimum rent payments. McDonald's franchisees are granted the right to operate a restaurant using the McDonald's system and, in certain cases, the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Franchisees

ESOP loans and other guarantees

The Company has guaranteed and included in total debt at December 31, 2000, $26.8 million of Notes issued by the Leveraged Employee Stock Ownership Plan (ESOP) with payments through 2006. Borrowings related to the ESOP at December 31, 2000, which include $97.1 million of loans from the Company to the ESOP and the $26.8 million of notes guaranteed by the Company, are reflected as long-term debt with a corresponding reduction of shareholders' equity (unearned ESOP compensation). The ESOP is repaying the loans and interest through 2018 using Company contributions and dividends from its McDonald's common stock holdings. As the principal amount of the borrowings is repaid, the debt and the unearned ESOP compensation are being reduced.

The Company also has guaranteed certain affiliate loans totaling $150.1 million at December 31, 2000.

Debt obligations

The Company has incurred debt obligations through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the effects of foreign currency and interest-rate exchange agreements.

		Interest rates(1) December 31		Amounts outstanding December 31		Aggregate maturities for 2000 balances					
IN MILLIONS OF U.S. DOLLARS	Maturity dates	**2000**	1999	**2000**	1999	2001	2002	2003	2004	2005	Thereafter
Fixed—original issue(2)		**6.8%**	6.9%	**$2,793.5**	$3,008.1						
Fixed—converted via exchange agreements(3)		**6.1**	6.2	**(351.5)**	(1,773.1)						
Floating		**6.6**	6.7	**914.1**	470.7						
Total U.S. Dollars	2001–2037			**3,356.1**	1,705.7	$ 635.1	$ 87.6	$ 43.9	$100.4	$ 292.1	$2,197.0
Fixed		**5.7**	5.6	**654.4**	1,941.2						
Floating		**4.8**	3.6	**1,609.6**	609.4						
Total Euro	2001–2012			**2,264.0**	2,550.6	417.4	42.9	135.3	334.7	282.5	1,051.2
Fixed		**6.2**	7.6	**524.6**	596.5						
Floating		**7.2**	6.0	**233.3**	145.9						
Total British Pounds Sterling	2001–2020			**757.9**	742.4	39.0	45.1	148.7		223.4	301.7
Fixed		**5.5**	5.4	**337.3**	228.4						
Floating		**6.7**	4.8	**25.7**	15.6						
Total other European currencies(4)	2001–2005			**363.0**	244.0	69.4	35.2	38.6	12.7	207.1	
Fixed		**2.7**	3.5	**589.0**	488.1						
Floating		**0.5**	0.1	**262.4**	298.5						
Total Japanese Yen	2001–2030			**851.4**	786.6	43.7				130.1	677.6
Fixed		**8.6**	8.1	**316.0**	415.0						
Floating		**7.6**	6.4	**453.5**	503.0						
Total other Asia/Pacific currencies(5)	2001–2011			**769.5**	918.0	626.4	13.9	90.5	32.3		6.4
Fixed		**16.0**	6.9	**42.2**	13.2						
Floating		**7.3**	5.2	**30.2**	86.3						
Total other currencies	2001–2021			**72.4**	99.5	43.7	12.9	8.6	4.8	0.5	1.9
Debt obligations including the net effects of foreign currency and interest-rate exchange agreements				**8,434.3**	7,046.8	1,874.7	237.6	465.6	484.9	1,135.7	4,235.8
Short-term obligations supported by long-term line of credit agreements						(1,250.0)		750.0			500.0
Net asset positions of foreign currency exchange agreements (included in miscellaneous other assets)				**39.6**	205.5	5.3	5.9	5.9	22.1	0.4	
Total debt obligations				**$8,473.9**	$7,252.3	$ 630.0	$243.5	$1,221.5	$507.0	$1,136.1	$4,735.8

(1) Weighted-average effective rate, computed on a semiannual basis.

(2) Includes $500 million of debentures with maturities in 2027, 2036 and 2037, which are subordinated to senior debt and which provide for the ability to defer interest payments up to five years under certain conditions.

(3) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the net effects of these and other exchange agreements.

(4) Primarily consists of Swiss Francs.

(5) Primarily consists of Australian Dollars and New Taiwan Dollars.

Leasing arrangements

At December 31, 2000, the Company was lessee at 6,055 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and at 6,984 restaurant locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

IN MILLIONS	Restaurant	Other	Total
2001	$ 748.3	$ 63.3	$ 811.6
2002	735.3	55.1	790.4
2003	705.8	46.4	752.2
2004	676.2	38.9	715.1
2005	623.5	34.8	658.3
Thereafter	6,018.7	221.0	6,239.7
Total minimum payments	$9,507.8	$459.5	$9,967.3

Rent expense was (in millions): 2000–$886.4; 1999–$796.3; 1998–$723.0. These amounts included percent rents in excess of minimum rents (in millions): 2000–$133.0; 1999–$117.1; 1998–$116.7.

Property and equipment

IN MILLIONS	December 31, **2000**	1999
Land	**$ 3,932.7**	$ 3,838.6
Buildings and improvements on owned land	**8,250.0**	7,953.6
Buildings and improvements on leased land	**7,513.3**	7,076.6
Equipment, signs and seating	**3,172.2**	2,906.6
Other	**700.8**	675.4
	23,569.0	22,450.8
Accumulated depreciation and amortization	**(6,521.4)**	(6,126.3)
Net property and equipment	**$17,047.6**	$16,324.5

Depreciation and amortization expense was (in millions): 2000–$900.9; 1999–$858.1; 1998–$808.0.

Employee benefit plans

The Company's Profit Sharing Program for U.S.-based employees includes profit sharing, 401(k) and leveraged employee stock ownership (ESOP) features. The 401(k) feature allows participants to make pretax contributions that are partly matched from shares released under the ESOP. Executives, staff and restaurant managers participate in additional ESOP allocations and profit sharing contributions, based on their compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year.

Participant 401(k) contributions, profit sharing contributions and any related earnings can be invested in McDonald's common stock or among six other investment alternatives. The Company's matching contributions and ESOP allocations are generally invested in McDonald's common stock.

Total U.S. costs for the Profit Sharing Program, including related nonqualified benefits, were (in millions): 2000–$49.6; 1999–$49.4; 1998–$63.3.

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2000–$38.1; 1999–$37.2; 1998–$37.5.

Other postretirement benefits and postemployment benefits, excluding severance benefits related to the 1998 home office productivity initiative, were immaterial.

Stock options

At December 31, 2000, the Company had three stock-based compensation plans, two for employees and one for nonemployee directors. Options to purchase common stock are granted at the fair market value of the stock on the date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and expire 10 years from the grant date. At December 31, 2000, the number of shares of common stock reserved for issuance under the plans was 185.3 million, including 9.5 million shares available for future grants.

A summary of the status of the Company's plans as of December 31, 2000, 1999 and 1998, and changes during the years then ended, is presented in the following table.

	2000		1999		1998	
Options	Shares *IN MILLIONS*	Weighted-average exercise price	Shares *IN MILLIONS*	Weighted-average exercise price	Shares *IN MILLIONS*	Weighted-average exercise price
Outstanding at beginning of year	**164.7**	**$23.06**	164.0	$19.32	156.3	$16.79
Granted	**26.5**	**35.16**	25.4	40.35	33.7	25.90
Exercised	**(10.8)**	**13.68**	(18.8)	13.89	(22.8)	12.00
Forfeited	**(4.6)**	**27.81**	(5.9)	18.01	(3.2)	21.06
Outstanding at end of year	**175.8**	**$25.34**	164.7	$23.06	164.0	$19.32
Options exercisable at end of year	**79.3**		69.4		64.4	

Options granted each year were 2.0%, 1.9% and 2.5% of weighted-average common shares outstanding for 2000, 1999 and 1998, representing grants to approximately 14,100, 12,700 and 11,500 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

The average per share cost of treasury stock issued for option exercises over the last three years was about $7.00. The average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because the Company prefunds the program through share repurchases. As a result, stock option exercises have generated additional capital, since cash received from employees has exceeded the Company's average

acquisition cost of treasury stock. In addition, stock option exercises resulted in $419.6 million of tax benefits for the Company during the three years ended December 31, 2000. The following table presents information related to options outstanding and options exercisable at December 31, 2000, based on ranges of exercise prices.

	December 31, 2000				
	Options outstanding			Options exercisable	
Range of exercise prices	Number of options *IN MILLIONS*	Weighted-average remaining contractual life *IN YEARS*	Weighted-average exercise price	Number of options *IN MILLIONS*	Weighted-average exercise price
$ 7 to 9	3.8	0.8	$ 8.02	3.8	$ 8.02
10 to 15	32.1	2.6	13.48	27.9	13.26
16 to 23	37.1	5.4	20.40	22.2	19.75
24 to 34	53.7	6.5	25.59	19.1	25.26
35 to 46	49.1	8.9	37.86	6.3	40.44
$ 7 to 46	175.8	6.1	$25.34	79.3	$19.86

Pro forma net income and net income per common share were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. For pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. SFAS No. 123 does not apply to grants before 1995. As a result, the pro forma disclosures do not include a full seven years of grants, and therefore, may not be indicative of anticipated future disclosures. The fair value for these options was estimated at the date of grant using an option pricing model. The model was designed to estimate the fair value of exchange-traded options that, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following tables present the pro forma disclosures and the weighted-average assumptions used to estimate the fair value of these options:

Pro forma disclosures	**2000**	1999	1998
Net income—pro forma *IN MILLIONS*	**$1,842.4**	$1,844.0	$1,474.0
Net income per common share—pro forma			
Basic	**1.39**	1.36	1.08
Diluted	**1.36**	1.31	1.05
Weighted-average fair value per option granted	**14.11**	14.06	8.75

Assumptions	**2000**	1999	1998
Expected dividend yield	**.65%**	.65%	.65%
Expected stock price volatility	**38.8%**	22.9%	18.0%
Risk-free interest rate	**6.39%**	5.72%	5.56%
Expected life of options *IN YEARS*	**7**	7	7

Quarterly results (unaudited)

	Quarters ended December 31		Quarters ended September 30		Quarters ended June 30		Quarters ended March 31	
IN MILLIONS, EXCEPT PER SHARE DATA	**2000**	1999	**2000**	1999	**2000**	1999	**2000**	1999
Systemwide sales	**$9,924.5**	$9,749.7	**$10,512.4**	$9,997.8	**$10,237.6**	$9,920.4	**$9,506.7**	$8,822.8
Revenues								
Sales by Company-operated restaurants	**$2,676.6**	$2,424.9	**$ 2,768.5**	$2,474.4	**$ 2,582.0**	$2,434.1	**$2,439.9**	$2,179.1
Revenues from franchised and affiliated restaurants	**913.0**	948.0	**980.5**	969.8	**978.6**	973.0	**903.9**	856.0
Total revenues	**3,589.6**	3,372.9	**3,749.0**	3,444.2	**3,560.6**	3,407.1	**3,343.8**	3,035.1
Company-operated margin	**404.2**	414.1	**470.9**	458.8	**435.0**	448.9	**406.8**	361.1
Franchised margin	**721.1**	756.3	**788.5**	783.0	**784.0**	792.6	**710.1**	677.2
Operating income	**774.0**	816.8.	**910.8**	907.7	**876.3**	883.5	**768.6**	711.6
Net income	**$ 452.0**	$ 486.2	**$ 548.5**	$ 540.9	**$ 525.9**	$ 518.1	**$ 450.9**	$ 402.7
Net income per common share	**$ .35**	$ .36	**$ .42**	$ .40	**$ .40**	$ .38	**$ .34**	$ .30
Net income per common share—diluted	**.34**	.35	**.41**	.39	**.39**	.37	**.33**	.29
Dividends per common share (1)	**$ –**	$ .04875	**$ .215**	$ .04875	**$ –**	$ .04875	**$ –**	$ .04875
Weighted-average shares	**1,307.0**	1,353.3	**1,315.6**	1,354.7	**1,327.1**	1,355.5	**1,343.4**	1,357.3
Weighted-average shares—diluted	**1,335.8**	1,401.4	**1,346.0**	1,403.1	**1,365.5**	1,405.6	**1,383.8**	1,409.2
Market price per common share								
High	**$ 34.50**	$ 49.56	**$ 34.25**	$ 45.25	**$ 39.94**	$ 47.06	**$ 43.63**	$ 47.38
Low	**27.56**	38.31	**26.38**	38.94	**31.00**	37.75	**29.81**	35.94
Close	**34.00**	40.31	**30.19**	43.25	**32.94**	41.13	**37.38**	45.31

(1) Beginning in 2000, dividends are declared and paid on an annual, rather than quarterly, basis. The annual dividend amount for 1999 was $.195.

Management's report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and financial comments appearing in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the U.S. and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal controls over financial reporting, including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures that are communicated throughout the Company; careful selection, training and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain high standards of proper business practices throughout the world.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that it maintains an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented herein.

The Board of Directors, operating through its Audit Committee composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has unrestricted access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION
January 24, 2001

Report of independent auditors

The Board of Directors and Shareholders
McDonald's Corporation

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the U.S.

ERNST & YOUNG LLP
Chicago, Illinois
January 24, 2001

Directors and corporate officers

as of January 31, 2001

Board of Directors

Hall Adams, Jr. (2, 3)
Retired CEO, Leo Burnett & Co., Inc.

Gordon Gray (1, 5)
Chairman, North American Metals Distribution, Inc.

Enrique Hernandez, Jr. (1, 5)
Chairman and CEO, Inter-Con Security Systems, Inc.

Jeanne Jackson (2, 3)
CEO, Walmart.com

Donald Keough (2)
Chairman, Allen & Company Incorporated

Donald Lubin* (4, 5, 6)
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Financial Journalist, Author and President of Terry Savage Productions, Ltd.

Roger Stone (1, 5, 6)
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Robert Thurston (2, 3, 4, 5)
Business Consultant

James Cantalupo† (4)
Vice Chairman and President

Jack Greenberg† (4)
Chairman and CEO

Michael Quinlan† (4)
Chairman of the Executive Committee

Fred Turner†
Senior Chairman

June Martino
Honorary Director

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Responsibility Committee
(4) Executive Committee
(5) Finance Committee
(6) Nominating and Corporate Governance Committee
* Serves as secretary of Audit Committee in a nonvoting capacity
† Executive Officer

Corporate Officers

Claire Babrowski†
Executive Vice President

Charles Bell
President–Asia/Pacific, Middle East and Africa Group

James Cantalupo†
Vice Chairman and President

Michael Conley†
Executive Vice President, Chief Financial Officer

Lynn Crump-Caine
Executive Vice President

Kevin Dunn
President–Great Lakes Division

Alan Feldman†
President–U.S.A.

Henry Gonzalez, Jr.
President–Northeast Division

Jack Greenberg†
Chairman and Chief Executive Officer

Jeffrey Kindler†
Executive Vice President, Corporate General Counsel

Debra Koenig
President–Southeast Division

Raymond Mines, Jr.
Executive Vice President

Michael Roberts
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Eduardo Sanchez
President–Latin America Group

James Skinner†
President–Europe Group

Stanley Stein†
Executive Vice President

Donald Thompson
President–Midwest Division

Marvin Whaley
President–North Asia

Corporate Controller

Christopher Pieszko†

Corporate Secretary

Gloria Santona

Advisory Directors

Appointed to serve a one-year term in a nonvoting capacity

Kevin Dunn
President–Great Lakes Division

Adriaan Hendrikx
Managing Director, Netherlands

Russell Smyth
Senior Vice President, International Relationship Partner

Susan Warzecka
Senior Vice President, U.S. Human Resources

Investor information

Investor information and services

Account information and assistance are available:

> at www.equiserve.com. See "McDonald's, the Web and you" on the outside back cover for more information.

> by calling 1-800-Mc1-STCK (1-800-621-7825) from the U.S. and Canada or 1-201-222-4990 (collect) from other countries. An automated response system is available 24 hours daily, 7 days a week. Representatives are available weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

> via a TDD service for the hearing impaired at 1-201-222-4489 weekdays from 9:00 a.m. to 5:00 p.m. Eastern Time.

> by writing to our transfer agent at the address at right.

MCDirect Shares enables investors to purchase McDonald's common stock and reinvest dividends. To obtain a Plan prospectus and enrollment form, go online at www.mcdonalds.com, call 1-800-228-9623 to have these materials mailed to you, or call 1-630-623-0172 to have them faxed to you.

Dividend policy: Given our returns on equity and assets and growth opportunities, we believe reinvesting a significant portion of earnings in the business is prudent. Therefore, our per share dividend is modest. Dividends are paid on an annual basis at the discretion of the Board.

2001 individual investor events

> March 3 & 4 — Ninth Annual Louis Rukeyser Investment Conference, Las Vegas, NV

> June 23 — NAIC Louisiana/Mississippi Chapter Investment Fair, New Orleans, LA

McDonald's 2000 Annual Report on Form 10-K may be obtained online without charge at www.sec.gov, or via a link from www.mcdonalds.com. You may also write our Investor Relations Service Center at the home office address at right.

Stock exchange listings

New York, Chicago, Paris, German, and Swiss

Trading symbol

MCD

Annual meeting

May 17, 2001
10:30 a.m. — 12:00 p.m. (Central Time)
Rosemont Theatre
5400 North River Road
Rosemont, IL 60018

Website

www.mcdonalds.com

General inquiries

Customers and general public
1-630-623-6198
Financial media
1-630-623-3678
Franchising
1-630-623-6196
Investor inquiries
1-630-623-7428
Ronald McDonald House Charities
1-630-623-7048
Stockbroker inquiries
1-630-623-5137

Share your customer comments by going to www.mcdonalds.com/countries/usa/corporate/info/contacts/comments.

Home office

McDonald's Corporation
McDonald's Plaza
Oak Brook, IL 60523

Transfer agent, registrar and MCDirect Shares administrator

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P.O. Box 2591
Jersey City, NJ 07303-2591

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Photography: Len Rubenstein, Joe DeNatale
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Cinnamon Graham
Cookies

McDonald's Corporation
McDonald's Plaza
Oak Brook IL 60523
www.mcdonalds.com

McDonald's, the Web and you

The Web is a great vehicle to provide convenient, value-added services to shareholders. Here are a few highlights of what's available to McDonald's shareholders on the Web.

> Learn more . . . stay informed No doubt about it, the Investors section of www.mcdonalds.com is the source for the latest McDonald's investor news and updates on recent and upcoming investor activities. Listen to or watch Investor Webcasts of events, such as the annual meeting or quarterly earnings conference calls. Sign up for E-Mail Notification so you'll be automatically advised when new investor information and services are available on our website.

> Annual Report and Proxy online Yes, Virginia, you can eliminate those bulky paper annual reports and proxy materials from your mailbox and help save your Company money. Sign up to access our annual report and proxy and to vote your shares online, and we'll e-mail everything you need to do so. MCDirect Shares participants, investors holding McDonald's stock certificates and those whose shares are held in safekeeping at EquiServe can sign up at www.econsent.com/mcd by providing their account number and registration or U.S. Social Security Number. Most investors whose shares are held by their broker or bank can sign up at www.icsdelivery.com.

> Access MCDirect Shares The Web makes it more convenient to access and participate in the Company's direct stock purchase plan, MCDirect Shares. At www.equiserve.com, eligible investors can obtain a MCDirect Shares prospectus, enroll in the Plan and use many of the Plan's services while online.

> Answers about your account How many shares do I have? When was my last stock purchase? How do I transfer shares to my children? MCDirect Shares participants, investors holding McDonald's stock certificates and those whose shares are held in safekeeping at EquiServe can get answers to questions like these and many more 24 hours a day, seven days a week at www.equiserve.com. To access your account on this secure site, you will need McDonald's issue number—9826, your account number, U.S. Social Security Number, if applicable, and password. To obtain a password, follow the instructions on this site. If your broker or bank holds your shares, you may want to ask if a similar service is available.

> More smiles online There are all types of fun and interesting information on www.mcdonalds.com. Click on Ronald & Friends for games and more, find a restaurant in the U.S. or U.K. or learn about McDonald's in other countries. You also can get information about nutrition, franchising, U.S. career opportunities, Company history, promotions in many parts of the world and much more on our website.